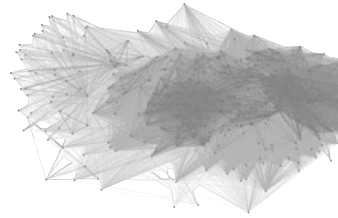




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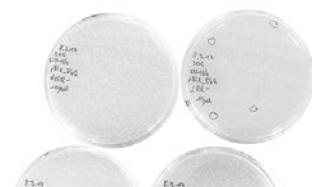


# /



# 2020

B·R·A·I·N



BRAIN AG Annual Report



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"An investor once told me  
that BRAIN enables you to dream  
about what the future might bring:  
I think he's right."

Adriaan Moelker — CEO of BRAIN AG

# BRAIN Group key financials

in € million

2019/20

2018/19\*

2017/18

## Consolidated income statement data:

|                                   | 2019/20     | 2018/19*    | 2017/18     |
|-----------------------------------|-------------|-------------|-------------|
| <b>Revenue</b>                    | <b>38.2</b> | <b>38.6</b> | <b>27.1</b> |
| Total operating performance       | 39.2        | 41.2        | 30.5        |
| EBITDA                            | -3.9        | -2.5        | -6.6        |
| <b>Adjusted EBITDA</b>            | <b>-2.0</b> | <b>-2.2</b> | <b>-5.3</b> |
| Net loss for the reporting period | -9.0        | -11.1       | -8.1        |

## Consolidated balance sheet data:

|                            | 2019/20      | 2018/19*     | 2017/18      |
|----------------------------|--------------|--------------|--------------|
| Total equity               | 26.1         | 20.2         | 28.4         |
| <b>Equity ratio (in %)</b> | <b>36.2%</b> | <b>30.5%</b> | <b>38.2%</b> |
| Total assets               | 72.2         | 66.1         | 74.5         |

## Consolidated cash flow data:

|   | 2019/20     | 2018/19*    | 2017/18     |
|---|-------------|-------------|-------------|
| <b>Cash flows from operating activities</b> | <b>-4.8</b> | <b>-3.4</b> | <b>-5.4</b> |
| Cash flows from investing activities        | -4.5        | -6.7        | -12.6       |
| Cash flows from financing activities        | 13.1        | -0.3        | 4.7         |

\*Figures partly adjusted. See the section „IAS corrections“ in the notes to the consolidated financial statements.

## THE BRAIN GROUP

The head office and the technology campus of the BRAIN Group are located in Zwingerberg, near Frankfurt am Main.

The BRAIN Group includes the following companies: AnalytiCon Discovery GmbH, AnalytiCon Discovery LLC, Biocatalysts Ltd. (65.55%), Biocatalysts Inc., L.A. Schmitt GmbH, SolasCure Ltd. (45.58%) and WeissBioTech GmbH.



# BRAIN at a glance

Since the company was founded in 1993, BRAIN AG has developed from an “R&D powerhouse” into an integrated company covering the entire value chain from laboratory through to production. Our focus is completely on the B2B segment.

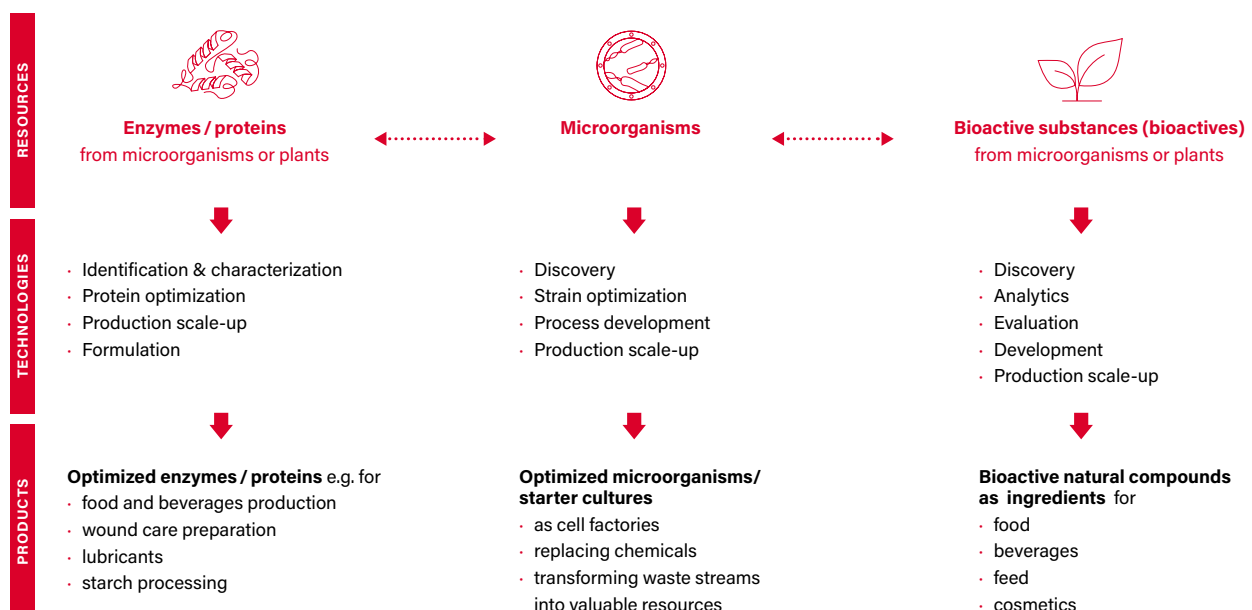
With our innovative bio-based products and solutions in the areas of nutrition, health and the environment, we support the development of business and the economy towards a greater level of bioeconomic activity. We support our customers from the industry on their path to sustainable processes and products. Accordingly our focus is on industrial (“white”) biotechnology.

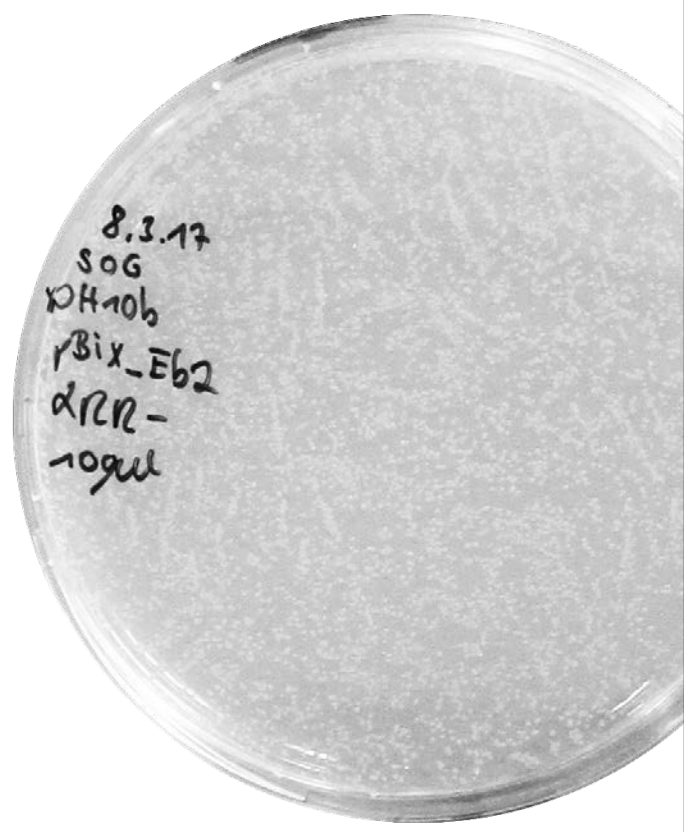
Our own **research** and our partner programs address some of the most important issues to make people’s lives better and healthier. Our **BioScience segment** is characterized by research projects lasting one or more years with some of the world’s most renowned companies. Our **BioIndustrial segment** focuses on the specialty business in the production and refinement of enzymes, microorganisms and twenty bioactive natural substances, as well as on related trading. Our products are generally aimed at less cyclical end-markets. Furthermore, natural-based products exhibit above-average market growth in line with rising consumer demand.

**Our mission:** We develop disruptive bio-based products and solutions for industry, with a focus on nutrition, health and the environment. We thereby support companies on their path to greater sustainability and we are helping society to transition towards a bioeconomy.

**Our vision:** We are the sought-after specialist in industrial biotechnology. With our service and products business we successfully occupy and develop niches offering high added value for our customers. We are more agile than our competitors and strive to produce our innovations ourselves or together with our partners.

## FROM THE BIOARCHIVE TO THE B2B MARKET: BRAIN’S VALUE CHAIN





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Adriaan Moelker — CEO

## Dear shareholders,

with positive organic revenue growth and a year-on-year slightly improved adjusted EBITDA, we brought our 2019/20 financial year to a successful close despite the very challenging general economic environment. It is thanks to the special commitment of our employees and our prudent Covid-19 protection concept that BRAIN AG has achieved this successful business performance, despite the difficult environment globally. Our business model, with its long-term partner projects and a focus on less cyclical customer segments such as the food industry, has also proven to be sustainable during the crisis.

BRAIN has developed favorably despite the very difficult general economic environment. The group has been able to further advance on its organic growth path mainly driven by our segment BioScience. In addition, we have been able to slightly reduce our adjusted EBITDA loss year-over-year.

With our technologies and products, we serve crucial future trends – such as demand from customers and consumers for more sustainable and healthier products. At BRAIN, we develop nature-based innovative products and processes that help our customers achieve the United Nations' Sustainable Development Goals. In this way we enable our customers to meet their corporate and societal responsibilities. You will find more on this topic under the heading "ESG" in this annual report.

## Profitable growth remains our objective

Tailor-made biotechnology solutions for industrial applications form the first important pillar of our business. Our products constitute the second pillar: enzymes, microorganisms and bioactive natural substances. We have significantly expanded our production capacities at our Biocatalysts subsidiary in Wales. This enables us to produce a larger share of our product developments ourselves in the future, and to supplement the value chain to include fermentation. The BRAIN Group's expansion to include the remaining interest in Weiss-BioTech GmbH in the past financial year represented a further logical step to expand our production capability.

In September, we presented our corporate strategy and medium-term goals to institutional investors and analysts at our "Capital Markets Day". Profitable growth remains our primary objective: our products business will play a crucial role in this context. We are concentrating to a greater extent both on business with existing products as well as on business with new products that are to be developed, with a clear focus on high-growth and profitable niches.

## From the laboratory through to production

We also aim to achieve rising margins through covering our products' entire value chain ourselves in the future – from the laboratory bench through to industrial-scale production. The scientific foundation for this has already been laid in the BRAIN Group, and the expansion of our production and fermentation expertise represents the next step. Our customers will also benefit considerably from this development, as it enables us to act rapidly as a Group and deliver from a single source. Moreover, we will save further costs and development time by leveraging synergies within the BRAIN Group.

While the site in Zwingenberg will remain the BRAIN Group's innovation center and headquarter, the production facilities in Cardiff and Büttelborn will be further developed for formulation and production on an industrial scale. We will continue to offer our products and our research and development services predominantly in Europe. In addition, we – as the BRAIN Group – aim to grow beyond Europe in selected regions such as the USA and Asia.

In addition to new production capacities, the transfer of process know-how among individual BRAIN Group companies has become an important competitive factor. Exchanging "know-how" within the Group and leveraging potential synergies to a greater extent will remain important issues for the BRAIN Group over the coming months.

## R&D remains an important foundation

At BRAIN AG, we will continue to deploy all our efforts in order to turn innovative ideas into specific applications. Research and development are indispensable for delivering innovations in biotechnology. For this reason, "R&D" remains the focus of our work. The experience and knowledge gained in the course of customer-specific development work can often form the basis for our new products business in the context of a second step. This is another reason to continue to realize significant investments in R&D.

We have revised our own product pipeline and focused on the most promising R&D projects. In the future, I personally will closely accompany our New Business Development (NBD). We are currently working hard to integrate the entire BRAIN Group more closely, and to intensify communication with customers and investors.

I was very pleased to learn from both dialog within the company as well as from discussions with customers that we are appreciated in the market for completing our projects within the agreed timeframes. Some of our solutions are unique; at the same time, we are reliable and trustworthy partners. Our project managers always have an ear open for the often very particular requirements our clients have. On this strong basis, we aim to address new markets and businesses over the coming months – both more intensively and together with the other BRAIN Group companies.

## Together into the future

The past months have been unsettling months for all of us. The coronavirus pandemic has disrupted the (working) lives of all of us. At BRAIN AG, changes also occurred to the Management Board. For many employees of BRAIN AG, my start as CEO in February 2020 also signified a lot of additional work. The reason for this was that, in order to drive forward the Group's transformation from a research company to an international product provider – as initiated by my predecessor – and to strategically plan its future orientation towards stronger growth, it was necessary to get to know the organization and its structures, products, solutions and technological competencies in detail. For me, this was a highly interesting and exciting time. Analyzing things and initiating discussions were, and continue to be, part of the "BRAIN DNA". I would like to thank all those involved for their commitment and contribution in our transformation process – with the spirit typical of BRAIN. In the meantime, we have become one team, and it is with pleasure that I recognize and sense the cohesion among my colleagues in their joint day-to-day work.

Despite the changes to the overall conditions for our business, BRAIN AG stayed on its growth track during the past financial year. We aim to remain on this track over the coming months. I would like to thank you, our shareholders, for your trust, your patience and your understanding that biotechnological breakthroughs require time and money in order to produce innovative and sustainable products based on nature.

Yours,



**Adriaan Moelker** – Chief Executive Officer BRAIN AG

## Dear shareholders,

Despite the difficult general economic situation, BRAIN AG successfully advanced its growth strategy in the 2019/20 financial year.

In the context of the company's "Capital Markets Day", the Management Board, after consulting with the Supervisory Board, formulated ambitious medium-term growth and earnings targets. The company aims to double its revenues and achieve an EBITDA margin of 15%, +/- 5 percentage points, within the next four to five years. The company is consistently pursuing an expansion of its products business in its BioIndustrial area, and has consequently also acquired the remaining minority interest of 24.7% in WeissBioTech GmbH. In addition to strong organic growth, value-enhancing acquisitions are also being considered. The growth targets in the products business are based on the broad scientific foundation of BRAIN AG. The subsidiaries are increasingly being integrated into the BRAIN Group, and we are thereby creating further conditions to leverage both cost and revenue synergies. The development of the spin-off SolasCure Ltd, United Kingdom, is progressing. We successfully completed a further round of investments, in which BRAIN AG participated pro rata, as planned. We are convinced that BRAIN AG, with its fast-growing products business, its successful market position in contract research, its investment in SolasCure, as well as product innovations from our incubator, enjoys a wide range of positive development potentials.

The Supervisory Board continued to play a consultative role in these developments during the past financial year.

The following report provides information about the Supervisory Board's work in the 2019/20 financial year, in other words, from 1 October 2019 until 30 September 2020. During this period, we fulfilled all of the tasks and duties incumbent upon us pursuant to the law, the company's bylaws and the rules of business procedure for the Supervisory Board.

We continuously supervised the Management Board in its management of the business, and consulted on all matters of importance for the company. In this context, the Supervisory Board was always convinced of the legality, propriety, appropriate nature and economic efficiency of the management of the company.

### **Collaboration between the Supervisory and Management boards**

The Management Board informed the Supervisory Board regularly, promptly and comprehensively in the form of detailed written and verbal reports on all matters relating to strategy, planning, business development, the risk position, risk trends and compli-

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**"The company aims to double its revenues and achieve an EBITDA margin of 15 %, +/- 5 percentage points, within the next four to five years."**

**Dr. Georg Kellinghusen** — Vorsitzender des Aufsichtsrats



ance that are of importance for the company and the Group, and consequently fully met its reporting duties to the Supervisory Board in the relevant period. The Supervisory Board and its committees were involved in all important business transactions and decisions of fundamental significance for the company. Collaboration with the Management Board was characterized in all aspects by responsible and purposeful action.

## Personnel matters

The following changes occurred to the composition of the Supervisory Board in the reporting period:

The term of office of Dr. Martin B. Jäger ended on 31 January 2020, when he stepped down from the Supervisory Board. The term of office of Dr. Rainer Marquardt ended with immediate effect on 27 February 2020, when he stepped down. The Supervisory Board consisted of four members from that date. As the Supervisory Board remained fully capable of acting and making decisions with this composition, no short-term court appointment was made. Rather, the selection process for proposals for new members was conducted in accordance with Section 104 (2) Clause 1 of the German Stock Corporation Act (AktG).

The following changes have occurred within the Management Board. Dr. Jürgen Eck retired from the Management Board as of the end of December 2019. He had been a long-standing member of the Management Board and most recently had been its Chairman (CEO). In February 2020, Adriaan Moelker began his term of office as the new Chairman of the Management Board (CEO). Ludger Roedder (CBO) resigned from the Management Board with effect as of 7 July 2020. As announced in May 2020, Manfred Bender's mandate as Chief Financial Officer (CFO) ended on 30 September 2020. Lukas Linnig was appointed as his successor with effect from 1 October 2020. No plans exist to appoint more than two individuals to the Management Board.

## Supervisory Board meetings

In the 2019/20 financial year, a total of five Supervisory Board meetings were held on a face-to-face basis, six face-to-face meetings of the committees, as well as nine telephone conferences of the Supervisory Board and ten of its committees. The Supervisory Board members always had sufficient time to engage critically with the information submitted by the Management Board, and to contribute its

own views. As part of the meetings, the information was discussed in detail with the Management Board, and examined as to its plausibility. The Supervisory Board also met regularly without the Executive Board. The Supervisory Board issued its approval of specific business transactions as required by law, the company's bylaws, or the rules of business procedure for the Supervisory or Management boards.

The individualized list of meeting attendances presented below provides additional information about the meetings of the Supervisory Board and its committees.

TABLE 01.1  
**OVERVIEW OF SUPERVISORY BOARD MEETINGS  
 IN THE 2019/20 FINANCIAL YEAR**

| Name                     | Meetings attended <sup>1</sup> | Meetings attended <sup>2</sup> | Remarks   |
|--------------------------|--------------------------------|--------------------------------|---|
| Dr. Georg Kellinghusen   | 14/14                          | 16/16                          | Chair   |
| Dr. Martin B. Jäger      | 4/5                            | 5/5                            | Includes three guest participations; non-participations are excused; stepped down as of 31 January 2020 |
| Dr. Anna C. Eichhorn     | 13/14                          | 10/10                          | Non-participations excused  |
| Prof. Dr. Bernhard Hauer | 12/14                          | 1/1                            | Includes one guest participation; non-participations excused;   |
| Dr. Michael Majerus      | 14/14                          | 9/9                            | Includes one guest participation  |
| Dr. Rainer Marquart      | 4/5                            | 2/2                            | Non-participations excused; stepped down as of 27 February 2020;  |

Moreover, outside the scope of meetings, the Supervisory Board members, especially myself as Supervisory Board Chairman and Committee Chairman as well as the respective Chairs of the Audit Committee, the M&A Committee and the Innovation Committee, were in regular communication both with each other as well as with the Management Board. This particularly entailed consultations on questions relating to the company's strategy, planning, business development, risk position, risk management, corporate governance and compliance.

<sup>1</sup> plenum; based on relevant meetings within the respective mandate period  
<sup>2</sup> committee meetings; based on relevant meetings within the respective mandate period

The Supervisory Board members were informed about important information at the latest as of the following plenary or committee meetings.

No conflicts of interest arose within the Supervisory Board during the reporting period.

### Focus consultation areas in the plenary Supervisory Board

During the 2019/20 financial year, we in the plenary Supervisory Board concerned ourselves especially with the following topics:

- Annual financial statements for the 2018/19 financial year,
- Corporate governance and the declaration on corporate governance,
- Reaching the corporate targets for the 2019/20 financial year relating to developing the BioIndustrial and BioScience operating segments,
- Risk management and internal controlling systems,
- Strategy development and adapting the strategy for the company,
- Planning and implementation of the Annual General Meeting on 5 March 2020,
- Effects of the Covid-19 pandemic
- Supervision of the capital increase on 4 June 2020,
- Supervision of cost measures,
- Acquisition of all shares in WeissBioTech GmbH,
- Current and future research projects,
- Strategic alliances and planned partnerships,
- Replacement of members of the Supervisory Board in accordance with Section 104 (2), Clause 1 AktG,
- Supervision of the company's "Capital Markets Day",
- Implementation of the efficiency review,
- Budget for the 2020/21 financial year, and planning for the next five years.

The Supervisory Board in all cases passed specific resolutions following intensive review and discussion.

Additionally the following topics and resolutions were presented:

On 20 December 2019, the Supervisory Board approved the financial statements documents for the 2018/19 financial year and concurred with the Management Board's proposal relating to the application of unappropriated profit, after having previously clarified and discussed in depth the financial statements at its face-to-face meetings.

Following the Annual General Meeting on 5 March 2020, the constituent meeting of the Supervisory Board was held on the same day. At the constituent meeting, Dr. Georg Kellinghusen was elected Chairman of the Supervisory Board following his re-election to the Supervisory Board.

Finally, the Management Board's composition formed one among various topics discussed in the course of the financial year under review, and the Supervisory Board found suitable solutions for the company, including in the event of the changes that occurred at short notice.

## Committees

The Supervisory Board has formed five committees to perform its work efficiently: an Audit Committee, a Nomination Committee, a Personnel Committee, a M&A Committee and a Nomination Committee. Based on their respective rules of business procedure for the committees, these prepare resolutions for the Supervisory Board, as well as topics to be handled by the plenary board. The Supervisory Board's decision-making powers are also transferred to committees where legally permissible. In all cases, the committees' chairs report on the committees' work at the subsequent plenary meeting.

### Audit Committee

The Audit Committee concerns itself especially with the supervision of the financial accounting, the financial accounting process, the efficacy of the internal control system, the risk management system, the internal audit system, the audit of the financial statements, as well as compliance. The Audit Committee submits a substantiated recommendation for the election of the auditor to the Supervisory Board,

which comprises at least two candidates if the audit mandate is to be put out to tender. The Audit Committee supervises the auditor's independence and concerns itself with services to be rendered additionally by the auditor, the award of the audit mandate to the auditor, the setting of focus audit areas, as well as arranging the auditor's fee.

Pursuant to the German Stock Corporation Act (Sections 107 (4), 100 (5) AktG), the audit committee must include at least one supervisory board member with expertise in the financial accounting or financial auditing areas. The Audit Committee Chairman, Dr. Michael Majerus, meets the statutory conditions pursuant to the German Stock Corporation Act (Sections 107 (4), 100 (5) AktG), and also possesses specialist knowledge as a head of financial accounting and CFO, including at three listed companies. His activities focus on controlling, financial matters and financial accounting, among other areas. Moreover, he commands a broad spectrum of knowledge in compliance topics as well as in the investor relations area. Besides the committee chair, the Audit Committee currently also includes the Supervisory Board members Dr. Georg Kellinghusen, Dr. Rainer Marquart (until 27 February 2020) and Dr. Anna C. Eichhorn (since 05 March 2020).

Furthermore, the Audit Committee has granted its approval that Ernst & Young GmbH, as well as management consultancy firms within the group association of Ernst & Young GmbH, should render further services besides audit services for the company, having assured itself in this context of the continued independence of Ernst & Young GmbH for the audit mandate.

The Audit Committee held one attended meeting and four telephone conferences in the 2019/20 financial year.

### Nomination Committee

In the 2019/20 financial year, the Nomination Committee held meetings particularly in order to select suitable candidates for the proposals for replacement appointments in accordance with Section 104 (2), Clause 1 AktG. Besides the committee chair Dr. Georg Kellinghusen, the committee also includes Supervisory Board

member Dr. Anna C. Eichhorn. With two members, the Nomination Committee continues to be formed in accordance with the rules of business procedure.

The Nomination Committee held two attended meetings and six telephone conferences in the 2019/20 financial year

### **Personnel Committee**

The Personnel Committee prepares personnel decisions for the Supervisory Board, especially the selection, appointment and recall from office of Management Board members, the conclusion and amendment of service contracts and pension arrangements, the compensation scheme including its implementation as part of the service contracts, target setting for variable compensation, setting and reviewing appropriate total compensation for each Management Board member, and approving the annual compensation report. In addition, the Personnel Committee passes resolutions concerning the representation of the company vis-à-vis Management Board members pursuant to Section 112 AktG, the approval of Management Board members' other business activities pursuant to Section 88 AktG (prohibition of competition), and other ancillary activities, especially assuming supervisory board posts or positions on comparable controlling bodies outside the BRAIN Group. Dr. Georg Kellinghusen chairs the Personnel Committee. Besides the committee chair Dr. Georg Kellinghusen, the committee includes the Supervisory Board members Dr. Martin B. Jager (until 31 January 2020) and Dr. Michael Majerus.

The Personnel Committee held a total of three face-to-face meetings during the 2019/20 financial year. The Personnel Committee concerned itself with the change in the appointment of the new Chairman of the Management Board from Dr. Eck to Mr. Moelker, the departure of Mr. Roedder, as well as the departure of Mr. Bender and the replacement of the position of Chief Financial Officer with Mr. Linnig.

### **M&A Committee**

The M&A Committee advises the Management Board on all relevant strategic matters relating to the

initiation and implementation of M&A transactions, especially in reviewing the strategic conformity of planned M&A measures, the implementation of acquisitions or disposals of companies or parts of companies, the valuation of target companies or transactions, the structuring and financing of transactions, the transaction-specific selection of suitable advisors, and the planning and implementation of integration scenarios. The M&A Committee prepares the decisions of the Supervisory Board in relation to the initiation and execution of M&A transactions, and prepares recommendations for Supervisory Board resolutions.

Besides the committee chair Dr. Martin B. Jager, the committee included the Supervisory Board members Dr. Georg Kellinghusen and Dr. Rainer Marquart.

The M&A Committee was dissolved with effect on 28 May 2020.

No meetings of the M&A Committee were held in the 2019/20 financial year.

### **Innovation Committee**

The Innovation Committee advises the Management Board on all matters concerning the company's innovation strategy and innovation management, especially in relation to the design and development of new products and applications, the allocation of individual projects to business segments and subsidiaries, and the initiation and implementation of research and development partnerships. The Innovation Committee prepares the decisions of the Supervisory Board in relation to innovation strategy and innovation management, and prepares recommendations for Supervisory Board resolutions. The Innovation Committee held two meetings. Besides the committee chair Dr. Georg Kellinghusen, the committee includes the Supervisory Board members Dr. Martin B. Jager (until 31 January 2020) and Prof. Dr. Bernhard Hauer.

The Innovation Committee was dissolved with effect on 28 May 2020.

No meetings of the Innovation Committee were held in the 2019/20 financial year.

The Supervisory Board has decided to combine the topics dealt with in the two dissolved committees



in strategy meetings of the plenum. The first strategy meeting in the 2019/20 financial year was held on 28 August 2020.

## Declaration on corporate governance and the statement of conformity

→ Declaration on Corporate Governance, page 53

At its meetings, the Supervisory Board consulted on several occasions concerning the company's corporate governance, including requirements deriving from the German Corporate Governance Code (DCGK).

The Supervisory Board approved the current statement of conformity in December 2020, after the end of the 2019/20 financial year. The Code's recommendations were, and are, complied with, apart from the exceptions explained in the statement of conformity. The full wording of the statement of conformity and the declaration on corporate governance are published on the company's website at [www.brain-biotech.com/investors/corporate-governance](http://www.brain-biotech.com/investors/corporate-governance).

Regarding the provisions of Section 111 (5) AktG, the Supervisory Board has set itself the target of taking women into appropriate consideration in its future composition. At its meeting on 28 September 2017, the Supervisory Board of BRAIN AG reconfirmed its objective that the Supervisory Board should include one woman, corresponding to a 17 % ratio. This corresponds to the status quo, as one woman, Dr. Anna C. Eichhorn, is a member of the Supervisory Board. The target included a deadline of 30 June 2022. Also on 28 September 2017, the Supervisory Board passed a resolution to leave the target ratio for women on the Management Board of BRAIN AG unchanged at 0 % until 30 June 2022.

At the start of the new 2020/21 financial year, at the request of the Management Board, as submitted in the 2019/20 financial year in coordination with the Supervisory Board, the competent court appointed Professor Dr. Wiltrud Treffenfeldt and Mr. Stephen Catlin as members of the Supervisory Board in accordance with Section 104 (2) Clause 1 AktG. The ratio of women rose further as a consequence.

## Audit of the separate and consolidated annual financial statements

### Auditor

The Annual General Meeting on 5 March 2020 determined that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY), Stuttgart, should be the auditor for the financial year ending 30 September 2020. This appointment also includes appointing the auditor for the consolidated financial statements for the financial year ending 30 September 2020. Helge-Thomas Grathwol, Diplom-Kaufmann, Wirtschaftsprüfer, Certified Public Accountant (CPA), has signed as auditor responsible for the audit since the 2017/18 financial year, and Michael Hällmeyer, Diplom-Kaufmann, Wirtschaftsprüfer, as auditor, also since the 2017/18 financial year. EY audited the separate annual financial statements for the financial year from 1 October 2019 to 30 September 2020, prepared according to the financial accounting regulations of the German Commercial Code (HGB), as well as the management report for BRAIN AG. The auditor EY awarded an unqualified audit certificate. Pursuant to Section 315e HGB, the consolidated financial statements of BRAIN AG for the financial year from 1 October 2019 to 30 September 2020 and the Group management report were prepared on the basis of International Financial Reporting Standards (IFRS), as applicable in the European Union. Both the consolidated financial statements and the Group management report were also awarded an unqualified audit certificate. Moreover, the auditor found that the Management Board has set up an appropriate information and supervision system that is suitable in its design and utilization to identify developments at an early juncture that jeopardize the company as a going concern.

### Review by the Supervisory Board

The documents for the financial statements and the audit reports were discussed extensively at the Audit Committee meeting on 11 December 2020 and at the Supervisory Board meeting on 11 December 2020. The auditor EY reported on the main results of its audit. It also provided information about its findings on internal control and risk management in relation to

the financial accounting process, and was available to respond to additional queries and to provide further information. The review of the separate and consolidated financial statements by the Audit Committee was reported upon in detail by its chair at the plenary meeting. Following in-depth review and discussion of the separate financial statements, the consolidated financial statements and the management report, the Supervisory Board raised no objections against the submitted documents. The Supervisory Board consequently concurred with the Audit Committee's recommendation and approved the result of the audit by the auditor. By way of resolution on 22 December 2020, the Supervisory Board then approved the separate and consolidated annual financial statements of BRAIN AG for the 2019/20 financial year. The separate annual financial statements of BRAIN AG have been adopted as a consequence.

### Report on the review of the dependent companies report pursuant to Section 314 AktG

Furthermore, the Supervisory Board reviewed the report prepared by the Management Board on relationships with affiliates pursuant to Section 312 (1) AktG for the period of dependency between 1 October 2019 and 30 September 2020 ("dependent companies report"), and discussed it extensively with the Management Board as well as with the auditor that additionally audits the dependent companies report.

The auditor reported in detail on the main points of its audit. In this context, the Supervisory Board concerned itself in-depth with the report by the auditor on the audit of the dependent companies report. The discussion led to no grounds for reservations.

The auditor issued the following audit opinion relating to the dependent companies report:

"In accordance with the audit and appraisal incumbent upon us, we confirm that

1. the actual disclosures presented in the report are correct,
2. and that for the legal transactions listed in the report, the consideration rendered by the company was not inappropriately high."

Following the conclusive result of the extensive review of the dependent companies report by the Supervisory Board, the Supervisory Board states that no reservations are to be expressed (Section 314 (3) AktG) against the Management Board statement that follows the report concerning relationships with affiliates (concluding statement pursuant to Section 312 (3) Clause 1 AktG).

### Thank you from the Supervisory Board

The Supervisory Board would like to thank Dr. Jager and Dr. Marquart for their commitment to the Supervisory Board of BRAIN AG. The Supervisory Board would like to thank the members of the Management Board as well as all employees of the BRAIN Group for their commitment and outstanding personal contribution during the 2019/20 financial year. We look forward to further advancing the profitable growth with you with renewed vigor.

Zwingenberg, 22 December 2020



BRAIN AG, the Supervisory Board  
**Dr. Georg Kellinghusen** — Supervisory Board  
Chairman

# Members of the Supervisory Board and Supervisory Board committees

|  | Further board mandates in 2019/20   |
|--|---|
| <p><b>Dr. Georg Kellinghusen</b><br/>Supervisory Board, Chairman</p> <p>Member since 9 March 2017.<br/>Appointed until the AGM 2022/23.</p>  | <ul style="list-style-type: none"> <li>Member of the Advisory Board of NWB Verlag GmbH &amp; Co. KG, Herne</li> <li>Member of the Advisory Board of Advyce GmbH, Munich</li> <li>Member of the Advisory Board of Simplifa GmbH, Berlin</li> <li>Member of the Bavaria Advisory Board of Deutsche Bank AG, Frankfurt am Main (listed company)</li> </ul>               |
| <p><b>Dr. Martin B. Jager</b><br/>Deputy Chairman, until 31 January 2020</p> <p>Member since 9 March 2017.<br/>Appointed until the AGM 2020/21 (stepped down as of 31 January 2020).</p> | <ul style="list-style-type: none"> <li>Managing Director and shareholder of Inno-Vest Nutrition GmbH, Kaiserslautern</li> <li>EIT Food iVZW, Belgium, Supervisory Board member</li> </ul>   |
| <p><b>Dr. Anna C. Eichhorn</b><br/>Deputy Chair, since 23 February 2020</p> <p>Member since 9 March 2017.<br/>Appointed until the AGM 2020/21.</p>                                       | <ul style="list-style-type: none"> <li>CEO of humatrix AG, Pfungstadt</li> <li>Management Board member (Deputy Chair) of Initiative gesundheitswirtschaft-rhein-main e.V.</li> <li>Member of the Supervisory Board of Frankfurter Innovationszentrum Biotechnologie (FIZ)</li> <li>Member of the Management Board of House of Pharma &amp; Healthcare e.V.</li> </ul> |
| <p><b>Prof. Dr. Bernhard Hauer</b><br/>Supervisory Board member</p> <p>Member since 7 March 2019.<br/>Appointed until the AGM 2022/23.</p>   | <ul style="list-style-type: none"> <li>Member of the Scientific Advisory Board of Biosyntia ApS,</li> <li>Member of the Scientific Advisory Board of Provivi, Inc.</li> <li>Member of the Scientific Advisory Board of Arzeda Corporation</li> </ul>  |
| <p><b>Dr. Michael Majerus</b><br/>Supervisory Board member</p> <p>Member since 7 March 2019.<br/>Appointed until the AGM 2022/23.</p>  | <ul style="list-style-type: none"> <li>CFO of SGL Carbon SE</li> <li>Member of the Supervisory Board of SGL CARBON LLC, Charlotte, USA</li> <li>Non-executive director on the Management Board of Deutsches Aktieninstitut e.V., Frankfurt am Main</li> </ul>   |
| <p><b>Dr. Rainer Marquart</b><br/>Supervisory Board member</p> <p>Member since 8 March 2018.<br/>Appointed until the AGM 2021/22. (stepped down as of 27 February 2020).</p>             | <ul style="list-style-type: none"> <li>Member of the Board of Directors of FLYTXT B.V., Nieuwegein / Netherlands</li> <li>Advisory Board member of the Onefootball GmbH, Berlin</li> <li>Member of the Board of Directors of The Ark Pte. Ltd., Singapore</li> </ul>  |

## Audit Committee

**Dr. Michael Majerus**, Chairman  
**Dr. Georg Kellinghusen**, Member  
**Dr. Rainer Marquart, until 27 February 2020**, Member  
**Dr. Anna C. Eichhorn, since 05 March 2020**, Member

## Nomination Committee

**Dr. Georg Kellinghusen**, Chairman  
**Dr. Anna C. Eichhorn**, Member

## Personnel Committee

**Dr. Georg Kellinghusen**, Chairman  
**Dr. Martin B. Jager, until 31 January 2020**, Member  
**Dr. Michael Majerus**, Member

## M&A Committee


**Dr. Martin B. Jager, until 31 January 2020**, Chairman  
**Dr. Georg Kellinghusen**, Member  
**Dr. Rainer Marquart, until 27 February 2020**, Member

## Innovation Committee

**Dr. Anna C. Eichhorn**, Chair  
**Dr. Martin B. Jager, until 31 January 2020**, Member  
**Prof. Dr. Bernhard Hauer**, Member

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# BRAIN Management Board interview



**Adriaan Moelker**  
Chairman of the board  
(CEO)

**Lukas Linnig**  
Chief financial officer  
(CFO)



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"An investor once told me that BRAIN enables you to dream about what the future might bring: I think he's right."

Adriaan Moelker — CEO of BRAIN AG

Adriaan Moelker took over as CEO of BRAIN AG on 1 February 2020. Lukas Linnig assumed his new role as CFO on 1 October 2020. Together with the workforce, the Management Board team aims to continue the company's transformation into a profitable international product provider with a strong scientific foundation. A first assessment – and prospects.

**Mr. Moelker, your first months as CEO of BRAIN AG are now behind you – how would you describe this time?**

**ADRIAAN MOELKER**

For me, returning to biotechnology after six years in a different sector felt like "coming home". I consider myself lucky to be at BRAIN. We work together with first-class global partners on projects that have an impact – in other words, a sustainable effect. Day-to-day work with top-class employees is inspiring, and gives me the feeling that we are doing the right thing for all our stakeholders.

Having said that, the first few months were an important time to focus the company on profitability. We have disappointed shareholders in the past, and we aim to show that we can demonstrate progress in this area in the future. I was aware of this challenge before I started, so it was no surprise to me. But managing change while retaining core competencies is, of course, a complex task. I have enjoyed helping the company in this regard.

**Has your impression of what BRAIN is, and can do, changed over this time?**

**ADRIAAN MOELKER**

What has fascinated me from the very outset – the company's broad and profound technological knowledge – exists to an even greater extent than you could perceive from the outside. While the business of many other biotech companies is based on a single technology, BRAIN utilizes a variety of technology platforms and expands their potentials in order to develop innovative products. In addition, agility and flexibility are not only important at BRAIN, but are also put into practice by our colleagues. This is indispensable in a company that aims to be innovative.

An investor once told me that BRAIN enables you to dream about what the future might bring: I think he's right. At BRAIN we are always trying to discover disruptive new opportunities – and some of them are now drawing close to the market, as we explained at our Capital Markets Day in September 2020.

**Mr. Linnig, you have been responsible for the CFO role since 1 October 2020, but before that you had already been responsible for Finance, Controlling and Legal at BRAIN for three years: How would you describe the 2019/20 business year from your perspective?**

#### LUKAS LINNIG

Our main topics during this business year included portfolio management and the realignment of our new business pipeline. In order to decide which of our R&D projects we wish to continue at an accelerated pace, and which of them will be put on hold for the time being, an intensive analysis of these projects was required – and this was of course preceded by many discussions with the project managers. One of the important factors in our decision was whether industrial partners were prepared to reliably share the financial risk entailed in such research-based projects. As a result, the projects that have now been shelved could be resumed at any time if an industrial partner showed interest.

**At the “Capital Markets Day” in September, BRAIN published details of its future strategic orientation. What are the key points of this strategy, and how is BRAIN progressing in implementing the related measures?**

#### ADRIAAN MOELKER

The most important points can be summarized in three core statements: Firstly, BRAIN has a profitable and growing product business with a solid plan for continued success in the years ahead. Secondly, our scientifically driven business, which includes both tailor-made solutions (TMS) and our substance libraries, is also profitable, and in addition is leading to valuable customer contacts. Thirdly, while our NBD pipeline is still a “cash-burner”, it is very healthy and contains short-, medium- and long-term projects with some groundbreaking solutions that can generate significant value for BRAIN and its shareholders.

All in all, BRAIN is a company with a promising future, considering the balance between current products and future potential – all this, of course, based on our strong technology.

**It is noticeable that you no longer speak of an NPD pipeline, which in the past stood for “New Product Development” pipeline. Instead, you now use the term “New**

**Business Development” pipeline, abbreviated as the “NBD pipeline”. What is the reason for this renaming?**

#### ADRIAAN MOELKER

The name “New Product Development Pipeline” failed to reflect the full extent of our activities. In fact, we are developing new products in much greater numbers than the NPD pipeline represented. These products are generally developed in our subsidiaries and help to drive our growth in their business areas. With the new term “NBD” we wish to emphasize that we at BRAIN generate completely new business opportunities. This commitment is also evident in our SolasCure spin-off and our DOLCE development program, to cite just two examples. In a nutshell: I think this terminology corresponds better with reality, and makes it easier to understand BRAIN’s portfolio.

**Why is strong growth in the product business so important to BRAIN’s future strategy?**

#### LUKAS LINNIG

Our products business is already profitable. A fast-growing products business will help us to become profitable as a Group. For this reason, contributions from our product areas will have a strong bearing on our short-term profitability. It is also important that the product business is “scalable”, which means we can realize positive economies of scale – as long as we meet or even exceed customer expectations. In addition, the products business contributes to a less volatile business overall, which also applies to our development of new business.

**If the products business is to grow even more strongly as a main pillar: at which BRAIN Group companies do you plan to produce in the future?**

#### LUKAS LINNIG

The transformation of the product-based business at BRAIN towards more in-house production and fermentation has already been prepared over recent years by our investments and by the expansion of production capacities at the Group companies Biocatalysts in Cardiff, UK, and WeissBioTech in Büttelborn,



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BRAIN Group employee and flavor expert Dr. Katja Riedel explains a typical tasting with natural sugar substitutes to Adriaan Moelker and Lukas Linnig.

Germany. We will continue to invest in capacity expansion in order to meet market demand.

**Are there other important measures at BRAIN that are already being implemented?**

**ADRIAAN MOELKER**

Our owners, the shareholders, are very important to us. For this reason, we have intensified our investor relations activities and are approaching our analysts and shareholders more proactively with an open communication culture. We have set clear medium-term goals against which we will be measured. We have not only focused our NBD pipeline, but also communicated existing projects to the capital market with clear schedules and with their expected commercial and

financial implications. In addition, we have streamlined the internal organization by defining clear responsibilities and accountabilities.

**LUKAS LINNIG**

We are also focusing on the efficiency of current assets, cost improvements and free cash flow. This of course goes hand in hand with much more intensive performance management in all business areas. We hold frequent and regular meetings with all subsidiaries, discuss these topics, and try to significantly improve processes. Consequently, we are already seeing the first positive results within the Group. We can leverage additional synergies by networking the subsidiaries within the Group much more closely.



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Natural alternative sweeteners and sweetener enhancers are used in beverage product development, such as in order to optimize taste. Depending on the type of fruit or vegetable, the respective natural substance can exert different effects on taste.



**Which project has been particularly successfully advanced at BRAIN recently? And to what extent does this project fit the strategic orientation?**

**ADRIAAN MOELKER**

In autumn, we successfully completed the development of a plant-based sweetener together with our development partner Roquette. This sweetener's taste profile is very close to that of conventional household sugar. The next step is to work together to obtain approval in the food sector, and to advance production on an industrial scale. In the run-up to the project, BRAIN had already started production of the plant-based sweetener with a profitable yield on a laboratory scale. We believe the sweetener enjoys excellent opportunities in the market and with consumers. It can lead to changes in segments of the sweetener market long-term. For the phase entailing approval and preparation for production on an industrial scale, we have signed a joint development agreement with our partner Roquette. We expect to launch this innovative natural sweetener within the next three to four years.

**BRAIN originally teamed up with Roquette through the DOLCE development program, but both partners then adopted slightly different paths for the further development of a sweetener. What exactly has been BRAIN's contribution to the DOLCE project to date?**

**ADRIAAN MOELKER**

BRAIN AG and AnalytiCon Discovery GmbH, both of which are BRAIN Group companies, initially made available their comprehensive collection of natural substances, all of which were isolated from edible plant material. BRAIN AG identified sweetener candidates from around 100,000 of these natural substances and then validated their sweetness *in vitro*, in other words, in a laboratory test system.

In addition to the scientific expertise in taste research, the company's own test system made of human tongue cells, our "artificial tongue", was utilized. To confirm the result in the *in vitro* test system, the sweetening properties were verified in sensory tests with

human test persons. The Management Board members also had the opportunity to taste the product – it's very interesting how different "sweetness" can taste!

**What about further sweeteners you're likely to have discovered? Are you able to market them elsewhere?**

**LUKAS LINNIG**

Our colleagues involved in this project have indeed identified a large number of substances as "hot candidates" – candidates for new natural sweeteners and for natural substances that enhance the sweetening power of natural sugar. These substances can now move on to the next development stage. From the point of view of the DOLCE partners, the R&D phase that has now been completed has for this reason been a complete success. Industry partners that have entered into a DOLCE partnership can consequently select a candidate from this "sweet box" and develop it further with us.

Our vision is that different sweetener solutions should cover different segments of the food industry, so sufficient scope exists for several different substances and various applications. However, the approach to this will be different than in the past, as we will only develop these candidates with contract partners that share a certain risk in the development.

**ADRIAAN MOELKER**

This early access to sweetener candidates is beneficial for food sector customers, as they can already test or develop them for their specific requirements or ideas. Once the substance is then officially approved as a food additive, the product can be placed in the market immediately. This gives our customers a time advantage over their competitors

**Are there any technologies or competencies at BRAIN that you would like to expand in the future?**

**ADRIAAN MOELKER**

We are currently focusing on expanding our expression, secretion and fermentation expertise. This requires not only the continuous expansion of our capacities, but

"Our main topics in this business year included portfolio management and the realignment of our new business pipeline."

Lukas Linnig — Chief Financial Officer of BRAIN AG

also the further development of our production strains. This enables a significant increase in production yields, and consequently in their profitability. In addition, modern technologies such as CRISPR/Cas, next-generation sequencing and the use of bioinformatics open up promising fields of activity for us.

**And now the issue that is probably addressed in every annual report at present: How much effect has coronavirus pandemic had on your company and on your sales, and how much effect is it still having?**

**ADRIAAN MOELKER**

I consider us fortunate in as much as we have been relatively little affected by the Covid-19 pandemic to date. This is mainly thanks to our employees' caution and care. A further advantage for us, however, is that our pro-

jects are designed for the long term. The fact that many projects are located in the relatively crisis-proof food industry or in the health and environmental sectors also helps in this regard. Unfortunately, however, no one knows what the future impact of the pandemic will be.

**LUKAS LINNIG**

Given the virtual means of doing business during the pandemic, we naturally face the challenge of maintaining personal contacts and building new relationships. This makes work more difficult for our colleagues in the Business Development area, for example, in generating new business. For this reason, we salute their efforts in initiating new business purely via telephone calls and video conferences.

02

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# The company

## 02 The company

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# The BRAIN Group in figures



**28**

years of experience in biotechnology and always at the leading edge technologically.



**324**

employees work in the BRAIN Group and are committed to its goals every day.



**43**

metagenome libraries serve as a database to find new enzymes for our customers.



**~13,000**

plant parts are available to the BRAIN Group for natural substance isolation. This saves time in the search for bioactive substances.



**53,000**

microorganisms have been cultured and characterized and are ready for customer projects. This saves time in the search for organism and enzyme candidates.



**130**

products from the BRAIN Group are special products for B2B.



**~200**

is the number of scholarships BRAIN has awarded in recent years to support young scientists.



**38.2**

is the amount of revenue in millions of euros that the BRAIN Group generated in the 2019/20 financial year.

**>100**

is the number of R&D projects BRAIN has successfully executed to date - including partnership projects with major global companies.



**175**

is the number of active state patents BRAIN AG currently holds in a total of 42 patent families.

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# Why invest in BRAIN?

Since the company was founded in 1993, BRAIN AG has developed from a sought-after specialist in research and development into an integrated company that covers the entire value chain from the laboratory through to production. With our pioneering bio-based products and solutions in the areas of nutrition, health and the environment, we support the transition of business and the economy towards a greater level of bioeconomic activity. Our focus is on the B2B business.

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## 1

### **With our solutions we address the social trend towards more health and sustainability**

BRAIN's research and development (R&D) and industry-oriented research programs are aimed at solutions that make our industrial customers' processes more efficient and environmentally compatible. Some solutions or products lead to products with greater nutritional and health value at the end of the value chain. Due to non-disclosure agreements, we are not able to present all R&D programs publicly. However, here are a few examples:

#### **Solutions for the food industry**

**Alternative sweeteners:** BRAIN has been active in the area of taste research for several years and has developed a cell-based technology to identify and evaluate alternative natural sweeteners and sweetness enhancers in the laboratory. Our "sweet box" now contains over 100 possible substance candidates. The substances it includes are offered within the DOLCE program to industrial customers, who can test them in their food products for optimal sweetening power and taste experience.

**Low-salt food products:** The aim of the "Salt Taste Enhancer" programs is to create foods with reduced sodium content, but also with a consistent taste experience. In addition to plant-based natural compounds that are being developed into alternative flavor carriers, a cell-based test system from BRAIN is also utilized for *in vitro* flavor testing.

**Tastier, healthier drinks:** Natural-based substances that make non-alcoholic beverages tastier and healthier than conventional drinks: BRAIN supplies microorganisms as starter cultures for natural fermentation.

**Food preservation:** We identify plant-based antimicrobial candidates for the natural preservation of food and animal feed. The associated programs are open to industrial partners.

#### Solutions for more sustainability in industrial processes

**Gold recycling from e-scrap and similar:** Our microbial gold recovery replaces conventional recycling processes, thereby reducing the utilization of aggressive and toxic chemicals. In addition, the biological process requires less energy, so the CO<sub>2</sub> footprint of biological metal recovery processes is significantly reduced. Besides gold, other precious metals can be recovered in this way from computer scrap, slag and other waste of mineral origin ("urban mining").

**Gold mining in ores:** Biological solutions based on specialized microorganisms also contribute to more sustainability in metal extraction from primary sources. In so-called "green mining", biological extraction replaces chemical extraction and reduces the use of problematic cyanides.

**CO<sub>2</sub> as a raw material for chemicals:** Microorganisms that use CO<sub>2</sub> as their sole carbon source for their metabolisms can be used to produce "building blocks" from CO<sub>2</sub> for chemical compounds.

#### Solutions for health

**Supporting wound healing:** The Aurase® enzyme promotes the wound healing process. BRAIN produces this biological agent – which was originally found in larvae of the common green bottle fly – biotechnologically with microorganisms as producers, to a high level of purity. SolasCure Ltd., which was founded with investment from BRAIN, is currently dedicated to its development, CE certification and marketing as a medical product for the enzymatic cleansing of chronic wounds.

**TMS business - finding bioactive ingredients for cosmetics:** BRAIN has developed a cell-based test system that enables the identification of bioactive substances that have an effect on skin cells. The test system is used to find bioactive substances from our extensive collection of natural substances for industrial customers for their respective applications.

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# 2

## **We serve the concept of the bioeconomy and actively contribute to more sustainable industrial production**

BRAIN is a leading European company in the service of the bioeconomy. In this economy of the future, biotechnological processes contribute to sustainable production on a natural basis, and to environmentally compatible recycling management. Our focus is on white (= industrial) biotechnology. We are striving to replace petrochemical processes with biotechnological pro-

cesses on the basis of our company's own collection of resources, the BRAIN BioArchive. We make industrial processes more efficient and environmentally compatible. Our products and solutions directly address the United Nations' Sustainable Development Goals (SDGs) 2, 3, 6, 9, 12 and 13.

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# 3

## **We are active in defensive end markets that offer structural growth**

Our BioScience segment is characterized by service agreements with some of the world's most respected companies, which may run for one or more years. Our tailor-made innovative solutions offering high added value (Tailor-Made Solutions, TMS), as well as our business in relation to substance libraries (part of the BRAIN BioArchive), exhibit a low correlation with business cycles, and offer the potential for structural growth.

Our BioIndustrial segment focuses primarily on the specialty business, with the production of enzymes, microorganisms and bioactive natural substances. We mainly produce for end markets that are less dependent on cyclical fluctuations, and which are related to nutrition, health and the environment.

Natural products are reporting above-average growth rates, with consumers increasingly focusing on them.

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# 4

## **We combine a unique technology portfolio with enzymes, microorganisms and bioactive natural substances**

BRAIN AG has more than one enzyme. We possess extensive and well-founded knowledge concerning enzymes, microorganisms, cell-based test systems and bioactive natural substances. Our interdisciplinary approach enables us to conceive and develop innovative products and services.

Based on the BRAIN BioArchive, innovative products and solutions are created within the context of our research work or as part of partnership programs. Such work usually starts with the search for product candidates for specific industrial applications. We subsequently drive forward product development and optimization.

We develop our solutions from laboratory scale through to both pre-industrial and industrial scale. A solutions-based, creative way of thinking characterizes our R&D activities. We do not limit ourselves to individual technologies and methods, but instead leverage our broad technology portfolio.



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# 5

## We have a recognized partner network

BRAIN AG has successfully completed more than 100 R&D-driven cooperation projects, and regards itself both as a service provider and as a partner to industry. "BRAIN Inside" can be found in many everyday products. Due to confidentiality agreements, we cannot disclose all such projects.

Some highlights include:

- Henkel ("Persil" detergent): enzymes that are effective at low temperatures
- Südzucker ("Airwaves" chewing gum): microbial optimization of biotechnology isomalt production
- Symrise / Beiersdorf ("Eucerin" cream): "Symstive 1609" – active ingredient for sensitive skin
- Enzymes for companies such as Clariant, BASF, DSM, DuPont, Evonik, Fuchs Petrolub, Henkel
- Microorganisms for companies such as Bayer, Madaus, Roquette, Sandoz, Schering, Suntory
- Bioactive natural products for BASF, Cognis, General Mills, Merck, Symrise, Wella and others

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# 6

## We are active in markets with high barriers to market entry

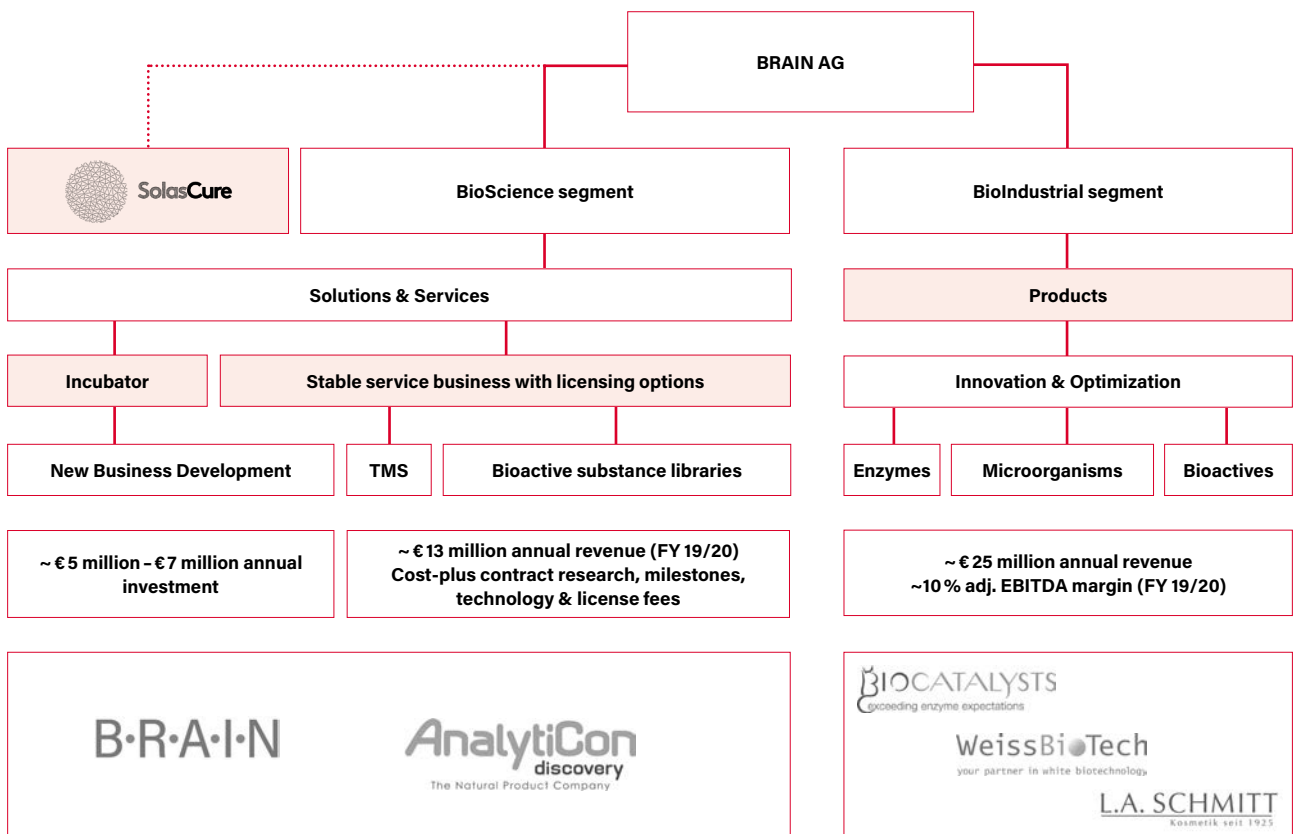
Our innovative products and solutions with unique selling points are based on:

- the proprietary BRAIN BioArchive,
- an extensive patent portfolio with approximately 175 active state patents in 42 patent families,
- well-founded and extensive technological expertise in relation to enzymes, microorganisms and bioactive natural substances,
- the mapping of the complete process – from the laboratory through to production,
- a strong network of industrial partners with over 100 successfully concluded partnerships,
- strategic alliances for "New Business Development",
- a strong scientific and university network,
- trade secrets,
- a cutting-edge technology portfolio,
- our employees: first-class scientists and process specialists.

# Corporate value: Four clearly defined drivers

BRAIN AG has at least four clearly defined drivers to grow the company's value in the future: firstly, dynamic growth and higher margins in our "BioIndustrial" products business, secondly, the further strengthening of our successful market position in contract research, thirdly, successful market launches of products as well as new projects from our incubator ("incubator products"), fourthly, our progressively developed innovative solution for enzymatic wound cleansing through the company SolasCure.

FIGURE 02.1 VALUE DRIVERS IN THE BRAIN GROUP



### **1. BioIndustrial: Dynamic growth and higher margins in our products business**

The products business of BRAIN AG, accounting for around EUR 25 million of revenues and an adjusted EBITDA margin around 10 %, forms a key element of the current value of our company. We aim to continue our strong innovation-driven organic growth in this area in the future, and to execute complementary value-enhancing acquisitions. With a stronger focus on our own production and fermentation, we will expand the internal value chain and leverage additional margin potential. We have already created the technical prerequisites for this with the high level of investments we have realized in production capacities at our subsidiaries Biocatalysts Ltd. and WeissBioTech GmbH.

### **2. Contract research: Further strengthening of our successful market position in research for customers**

Since its foundation, BRAIN AG has commanded a strong market position in contract research for customers. Today, this area accounts for profitable sales revenues in the amount of around EUR 13 million. Here we provide our partners with research services and access to our resource libraries. The scientific expertise at BRAIN in Zwingenberg and at AnalytiCon Discovery in Potsdam, as well as our extensive resource libraries, form the basis for this service, the success of which is reflected in over one hundred successfully completed partner projects. We are aiming for further growth in our contract research in the future. The area is characterized by contract terms of several years, and a low level of correlation with the macroeconomic cycle.

### **3. Incubator products: Successful product launches and new projects from our incubator**

BRAIN AG invests a considerable level of its own resources in "New Business Development" (NBD). This area is our incubator for highly innovative products and solutions with which we aim for scientific breakthroughs. Together with our partners from industry and academia, we develop solutions for major societal issues in the areas of nutrition, health and the environment. The topics of "reducing sugar and salt in food", "natural flavors and preservatives" and "recycling solutions for precious metals" form the focus of our research. In the past financial year, the management of BRAIN AG focused the NBD pipeline on the most promising projects in order to optimize time to market. Thanks to our researchers' innovative capabilities, new projects will continue to be added to the NBD pipeline.

### **4. SolasCure: Progressive development of our innovative solution for enzymatic wound cleansing**

With investment from BRAIN AG, SolasCure Ltd. was founded in 2018 as a specialized and agile unit to develop our novel wound cleansing enzyme Aurase® in order to prepare it for market launch. SolasCure specializes in the certification, approval and marketing of products for the biological conditioning of chronic wounds. With Aurase®, the company is at the start of the requisite clinical trial in humans, reflecting the so-called Phase 2a pharmaceutical development study. The management of BRAIN AG is very satisfied with the results of the clinical studies to date. As testing progresses successfully, the financial value of the investment in SolasCure grows in line with the greater probability of a successful market launch. BRAIN AG held a 46 % interest in SolasCure Ltd. as of the end of the financial year under review.

# ESG: Environment – Social – Governance

Five years ago the United Nations published its “Sustainable Development Goals” – goals for a better and more sustainable life for all. BRAIN products and solutions directly address at least six of these goals.

Socially, economically and ecologically sustainable: this is how the United Nations aims to see the world developing. In 2015, this led the UN to announce its “Sustainable Development Goals” (SDG) action plan. This plan is to serve as the basis for creating a better and more sustainable future for all people. Accordingly, the SDGs take social, economic and environmental aspects into account, and are addressed to governments worldwide, to civil society, the overall economy, as well as to the private sector, as companies can make a great contribution to achieving sustainability goals. Investors evaluate companies and their commitment to enhanced sustainability in the form of ESG criteria – including environmental, societal, and sustainable corporate governance aspects.

Companies' business models, products and services can also contribute to sustainable development. Industrial biotechnology – to which BRAIN is committed – enables the efficient utilization of natural resources. It can be used to make industrial production processes more efficient and sustainable, and to produce bio-based products for consumer goods. For example, BRAIN's natural ingredients from its proprietary substance libraries help to make industrially produced consumer goods more effective and healthier.

From the outset, BRAIN's aim has always been to play an active pioneering role in the transition away from fossil fuels towards biological resources that are produced and utilized on a sustainable basis.

**BRAIN solutions and products address the United Nations’ Sustainable Development Goals (SDGs)**


**2**



**Zero Hunger**

Natural antimicrobial substances for the treatment of food help to avoid waste.

**9**



**Industry, Innovation and Infrastructure**

Organic production, production efficiency enhancement, and byproduct flows for fermented food contribute to more sustainable industrial processes. CO<sub>2</sub> can be used as a raw material – for example, with specialized microorganisms using CO<sub>2</sub> in their metabolism, which convert it into compounds that serve as building blocks for basic chemical substances.

**3**



**Good Health and Well-Being**

Reduction of calorie density in food by means of natural sweeteners, while at the same time maintaining taste profiles; reduction of salt content in food; functional probiotics; natural raw materials as substitutes for chemicals in cosmetics; enzymatic cleansing of chronic wounds – these products and solutions contribute to improved health and well-being.


**12**



**Responsible Consumption and Production**

Microbial precious metal recovery from e-scrap, slag etc. can replace conventional recycling processes, thereby reducing the utilization of aggressive and toxic chemicals (urban mining).

**6**



**Clean Water and Sanitation**

In “green mining”, biological extraction replaces the chemical extraction of precious metals from ore, and reduces the utilization of problematic cyanides that can end up in water.

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# Resources and competencies: From the BioArchive to the product

**Nature-based high-tech: The BRAIN Group makes recourse to extensive in-house collections of natural resources, and explores and develops them with great expertise in biotechnological and analytical methods as well as in process development. Production facilities in Germany and the United Kingdom, as well as the associated production expertise, complement value creation “from the BioArchive to the product”.**

The BRAIN BioArchive is a company-owned collection of microorganisms and databases relating to enzymes and metagenomes, which the company has built up over the years (for related notes see the glossary on page 202). In the industrial environment, the collection can be considered unique in terms of its scope and data intensity. Based on AnalytiCon Discovery's impressive natural product library, among other resources, the BRAIN BioArchive provides access to an extraordinary variety of natural substances and production organisms, with the help of which the BRAIN Group develops and produces bio-based products and finds innovative solutions for sustainable industrial processes. Companies that decide to enter into joint development programs with BRAIN are granted access to certain sub-collections of the BRAIN BioArchive.

## In figures

- 53,000 comprehensively characterized and cultivable microorganisms
- 13,000 parts of plants as a basis for the natural substance isolation
- more than 50,000 already characterized natural products and fractions from edible plant material
- 43 metagenome libraries with millions of new enzymes and metabolic pathways deriving from previously non-cultivable organisms

## Cutting-edge technology portfolio

Well-founded knowledge and complex technology platforms are indispensable in order to utilize these valuable natural resources – such as in order to identify specific substances as ingredients for food and cosmetics, and to find, characterize and further develop microorganisms as starter cultures for special fermentations. This is the only way to gain new scientific insights for customers in the R&D process, overcome technological challenges, and develop innovative solutions.

Cutting-edge techniques and special expertise are deployed at the BRAIN Group's Innovation Center, located at BRAIN AG in Zwingenberg. These include: high-throughput sequenc-

ing, metagenome and big-data analysis, protein engineering, genome editing, digital 3D modelling and test simulation, cell-based test systems, high-speed screening and intelligent process optimization.

BRAIN's technology portfolio is broadly secured by a strong patent position in relation to substances and technologies. International patent rights encompass technology and product innovations in all BRAIN product categories.

### Many years of production expertise

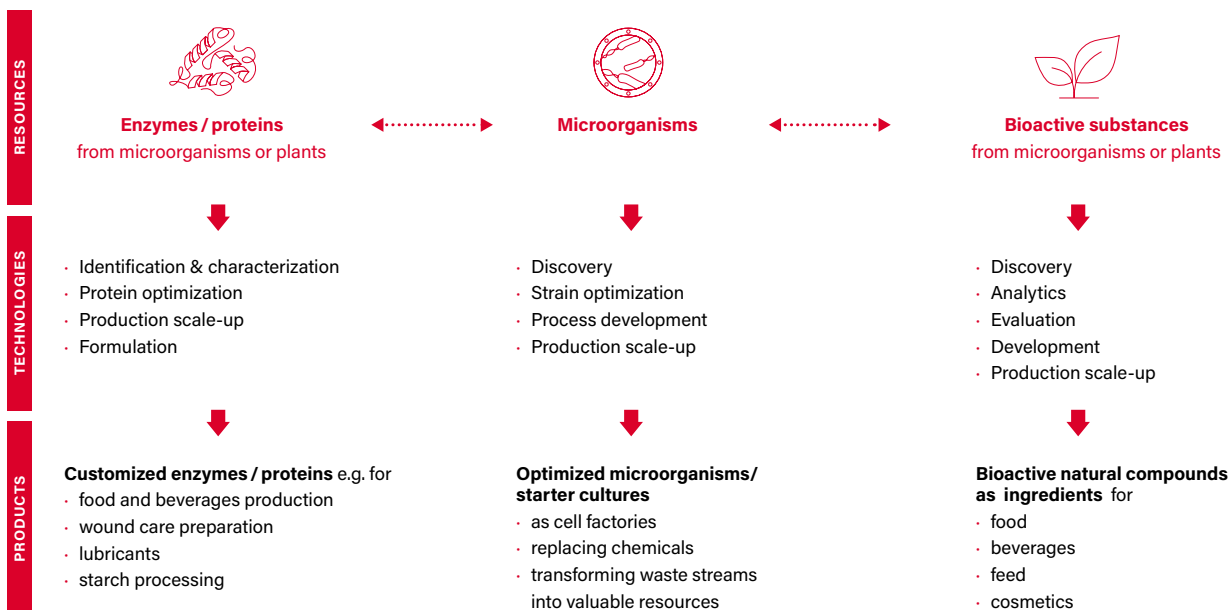
BRAIN is developing increasingly into a company with its own production capacities. As the complete enzyme value chain – from identification, fermentation and optimization in the laboratory through to industrial-scale production – is accordingly to be covered within the BRAIN Group in the future, BRAIN AG has acquired companies, or parts of companies, with corresponding production expertise over recent years.

For example, Biocatalysts Ltd., based in Cardiff, UK, develops so-called speciality enzymes on a contract basis, produces them and ships them worldwide – and contributes its many years of experience and production capacities to the Group. We have significantly expanded our own fermentation capacities at our site in Cardiff.

WeissBioTech GmbH, based in Büttelborn, Germany, acts as a so-called “formulator”, where enzyme products are further processed. For example, they are stabilized, standardized and mixed, before being dispensed into containers. In addition to modern storage capacity for catalog goods, production capacity on an industrial scale is kept available at the site.

Within the BRAIN Group, our customers find both tailor-made innovative products and solutions for their industrial applications, as well as finished enzyme products from the product portfolio. Only a few providers can deliver “from the laboratory to production” services in this form, and with such a wealth of experience.



FIGURE 02.2 FROM THE BIOARCHIVE TO THE B2B MARKET: BRAIN'S VALUE CHAIN



# Innovation pipeline

Last year, BRAIN realigned its New Business Development pipeline. The present selection shows only the most important projects and their current status as of the end of the 2019/20 financial year. In fact, BRAIN develops many more products for its industrial customers.

## PARTNER

|   |  |
|---|--|
|    | <p>BRAIN and Suntory Beverage &amp; Food Europe (SBFE) are working together to develop new natural beverage components to be utilized in selected categories of the SBFE product range. These address growing demand for new varieties of natural ingredients in beverages. <a href="http://www.brain-biotech.com/press/suntory-beverage-food">www.brain-biotech.com/press/suntory-beverage-food</a></p>   |
| <p><b>US Consumer Goods Company (CPGC)</b></p>                                      | <p>Based on special cell-based test systems, BRAIN – in its “salt taste enhancer” programs – is committed to the reduction of salt consumption. Initial product candidates, such as from the SALT-1 program, are exclusively partnered with a US consumer goods company, and are about to be launched on the market.</p>   |
| <p><b>Japanese consumer goods and beverages group (JP Bev)</b></p>                  | <p>Edible plants have ingredients that counteract harmful organisms. BRAIN has identified such a substance candidate for a Japanese consumer goods and beverage company, making it available via natural fermentation. BRAIN’s expertise in identifying and manufacturing natural and sustainably produced substances opens up opportunities for a wide range of market segments: from food and feed through to medical products, paints and coatings, fresh foods, cleaning products, hygiene products and other household products.</p>                                  |
| <p><b>Not publicly named</b></p>  | <p>BRAIN is developing a bioactive, preservative natural substance called Perrilic Active. Originally, this natural substance derives from an edible plant native to Asian countries, although isolating the substance from the plant is neither economical nor sustainable. BRAIN has exploited the properties of the natural substance and can alternatively extract bioactive (perilla) substances from the peel of citrus fruits and with the help of microorganisms. These substances can be utilized as a natural preservative in food, as well as in cosmetics.</p> |
| <p><b>Ongoing search for industrial partner</b></p>                                 | <p>BRAIN uses microorganisms to recover gold (and other precious metals) from e-waste and other secondary raw materials. This enables a reduction in the utilization of harmful chemicals and energy as well carbon footprint compared to conventional gold recovery processes. Together with partners from the recycling industry, BRAIN aims to transition the technology to an industrially relevant scale and communicate its potential within the sector. <a href="http://www.brain-biotech.com/bioextractor">www.brain-biotech.com/bioextractor</a></p>              |
|  | <p>BRAIN and Roquette have successfully completed the R&amp;D phase of the DOLCE program to develop a natural sweetener. They are now pushing ahead with food sector approval and industrial-scale production. Commercialization is also being prepared. Both companies ascribe very good competitive opportunities to the sweetener, primarily in the beverage industry, but also in other food markets. <a href="http://www.brain-biotech.com/dolce">www.brain-biotech.com/dolce</a></p>   |
| <p><b>SolasCure</b></p>   | <p>Aurase® is an enzymatic substance developed by BRAIN to treat chronic wounds. SolasCure Ltd., a company founded with BRAIN’s investment, is currently preparing clinical trials and subsequent marketing of the substance. <a href="http://www.brain-biotech.com/de/aurase">www.brain-biotech.com/de/aurase</a></p>   |



The "Green Mining", "Sweetener" and "CO<sub>2</sub>" projects, all fully financed, have been allocated to the TMS ("Tailor-Made Solutions") business. The SALT-E and FRESCO projects will continue as soon as industrial partners have been found. The "New Enzymes" area now forms a regular part of product development in BRAIN's BioIndustrial business segment.

- BRAIN Group net present value (risk-adjusted free cash flows + terminal value): < € 5 million
- BRAIN Group net present value (risk-adjusted free cash flows + terminal value): € 5 million – € 15 million
- BRAIN Group net present value (risk-adjusted free cash flows + terminal value): € 15 million



# Important events in the 2019/20 financial year



## 2 December 2019

### Change at the top of the Management Board – Adriaan Moelker becomes CEO of BRAIN AG

The Supervisory Board appoints Adriaan (Aryan) Moelker to the Management Board with effect from 1 February 2020, and nominates him as the future Chairman of the Management Board (CEO). Dr. Jürgen Eck resigns from the Management Board as of the end of 2019 and leaves the company by mutual agreement.

## 17 December 2019

### BRAIN Group expands production capacities

BRAIN creates capacities for further growth with the creation of a new production plant by WeissBioTech GmbH in Büttelborn near Darmstadt, Germany, and of a further production plant by Biocatalysts Ltd. in Cardiff, UK. With this production capacity expansion, BRAIN is advancing its strategic focus on its products business.

## 5 March 2020

### Annual General Meeting in Zwingenberg relating to the 2018/19 financial year

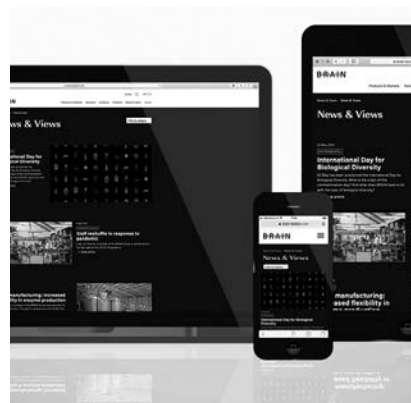
Shareholders approve the actions of the Management and Supervisory boards at the 2018/19 AGM. Dr. Georg Kellinghusen is re-elected to the Supervisory Board and is re-elected as the Chairman of the Supervisory Board. The new Chairman of the Management Board (CEO) Adriaan Moelker takes the opportunity to introduce himself personally to the shareholders. He announces his intention to better leverage existing potentials within the enzyme business in the future, to further internationalize the business, and to enhance the focus of the project portfolio.



## 6 May 2020

### BRAIN launches its own news channel – “News & Views”

In past years, the company magazine “Blickwinkel” reported on new developments within the BRAIN Group. This task has now been taken over by the “News & Views” digital news channel. This new corporate digital channel aims to demystify topics from the world of biotechnologists, chemists, engineers and bioinformatics experts, and make them comprehensible for interested stakeholders.



## 7 May 2020

### Supervisory Board appoints Lukas Linnig as successor to CFO Manfred Bender

Chief Financial Officer Manfred Bender to leave BRAIN AG at his own request as of the end of the financial year on 30 September 2020. The Supervisory Board appoints Lukas Linnig, Head of Finance, Controlling and Legal at BRAIN since 2017, as the new Chief Financial Officer.



## 4 June 2020

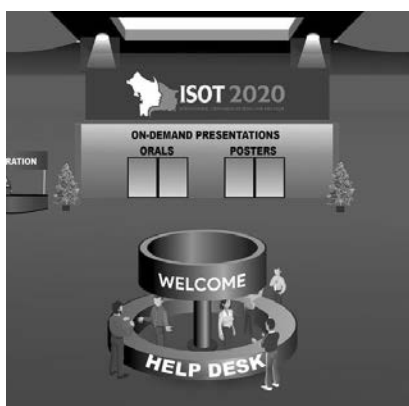
### BRAIN AG successfully places capital increase to finance further growth

The BRAIN Management Board, with the approval of the Supervisory Board, concludes the issue of approximately 1.8 million new shares (equivalent to around 10% of the share capital) as part of a cash capital increase from authorized capital under exclusion of subscription rights. The new no-par-value registered shares were placed with institutional investors by way of an accelerated placement procedure and issued at a price of EUR 8.30 per new share. BRAIN's main shareholder participated in the capital increase.

## 1 July 2020

### BRAIN AG acquires outstanding minority interests from WeissBioTech

On 30 June 2020, BRAIN AG acquires the remaining minority interests of 24.7% in WeissBioTech GmbH from the company's founder, with effect from 1 July 2020. This brings BRAIN a further step closer to accessing a growing and profitable enzyme market.



## 13 July 2020

### BRAIN presents for the first time at virtual sector conference

Due to the coronavirus pandemic, conferences are now being held only virtually. BRAIN participates at trade fairs and conferences on food technology, environmental technology and bioprocessing, among other topics – with digital booths, live presentations as well as pre-recorded web seminars.



## 23 July 2020

### BRAIN and Heraeus successfully complete process development for precious metal recovery

Heraeus Precious Metals and BRAIN AG successfully complete on schedule a partnership agreement relating to the biological recovery of platinum group metals (PGM) from industrial process flows. BRAIN has established a technology platform where optimized microorganisms bind PGM metals via specific chemical surface interactions, including under extreme environmental conditions.



## 15 September 2020

### BRAIN AG presents its strategy at its "Capital Markets Day"

At the Capital Markets Day, held both on site and virtually, CEO Adriaan Moelker provides analysts and institutional investors with insights into the realigned strategy with which BRAIN aims to continue on its growth path. Other BRAIN Group companies also present their organizations and businesses.

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# Corporate culture

What distinguishes the employees of BRAIN AG?  
How is the coronavirus pandemic affecting our corporate culture?  
And what special challenges are we facing as the BRAIN Group?

Striving for continuous improvement and ever greater professionalism represents an important element of the corporate culture at BRAIN. Building on our core values, our interdisciplinary teams focus on successfully implementing their projects, as these form the foundation of our business success. Each individual not only grows with the challenges posed by his or her tasks, but also provides helpful assistance and support to colleagues who are new to their job or just starting their training. With impressive passion and creative commitment, they also demonstrate how to become a “BRAINie”. We have a constructive and open culture of discussion, which has not been affected by the unavoidable transition to the virtual space in spring 2020. The Covid-19 pandemic this financial year has shown how all our staff have come to terms with this exceptional situation with exemplary discipline, a high level of motivation and, what is more, business foresight. Consequently, despite the social distancing measures and restrictions that were imposed, the collaborative feeling has increased and become stronger. To date, the team spirit at BRAIN has generated a special working atmosphere, and we trust that it will continue to do so in the future.

## BRAIN Group employees

Looking to the future, we face major challenges: it is important to continue to link our subsidiaries carefully but efficiently at our various locations, and to give the BRAIN Group its own





identity, without thereby neglecting individuals' sense of rootedness within a given environment. We have launched a number of initiatives to ensure greater mutual comprehensibility, as well as to facilitate cooperation and goal orientation throughout the Group. Examples include the new and simplified organizational structure with its clear areas of responsibility, the introduction of a management system across the entire BRAIN Group, the establishment and development of new processes and instruments for the continuous advancement of employees, and greater fostering and development of talent.

The BRAIN Group employed a total of 324 staff as of the end of its financial year in September 2020, including 135 at BRAIN AG, 71 at AnalytiCon Discovery, 71 at Biocatalysts, 17 at Weiss-BioTech and 25 at L. A. Schmitt.

## Networks and education

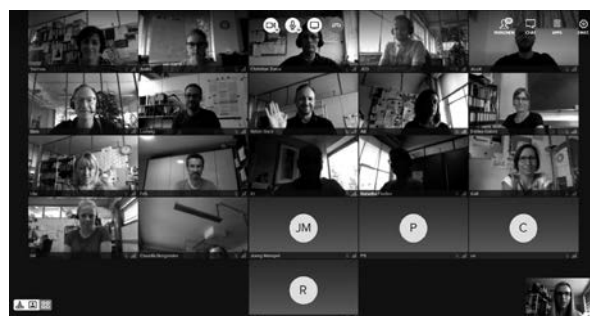
The idea of networking and open innovation as it is practiced in academic research forms part our DNA at BRAIN. Under the conditions of the Covid-19 pandemic, however, continuing the usual communication and dialog between BRAIN researchers and scientists from international research groups, universities and institutes posed a particular challenge. Staff from our Business Development area were also unable to attend international trade fairs and conferences. As a consequence, meetings with partners and customers to cultivate academic and industrial networks, sounding out the market and customer needs, researching new trends and presenting our own products and partnership offerings inevitably migrated to the virtual space. For this reason, attending virtual trade fairs, online presentations and talks, a greater social media presence and live streaming of our own internal events represent just some of the activities that have now become almost routine for us.

However, practical work and laboratory experiments are not possible from a home office. The social distancing regulations that were imposed required us to reduce the number of our study projects. In principle, we continue to support the implementation and supervision of practical semester and final theses (Bachelor's / Master's).

After adapting our practical aptitude test to reflect the situation, we selected two candidates this year who have now started our in-house training as biology laboratory technicians. This training resumed in 2018 in partnership with Merck KGaA, Darmstadt. BRAIN has thereby been contributing to the qualification of young people in the Rhine-Main-Neckar metropolitan region since 1996.

# Corporate communications

Biotechnology is a complicated subject – not only for those who deal with it on a daily basis, but even more so for those who do not. As it is sometimes necessary to undertake extra efforts in order to make great developments from the BRAIN Group comprehensible, we have strengthened our corporate communications function, and expanded it to include a further important channel.



## Virtual fairs and events

While BRAIN continued to be represented at trade fairs, conferences and other events up until February 2020, the coronavirus pandemic forced our employees to migrate their attendance and talks at such events entirely into the virtual arena. Initially, event organizers faced the greatest challenge, as they had to swiftly rearrange their events in online formats. The challenge for the participating companies was then to not only organize a purely digital presence, but also, and above all, to demonstrate expertise. Just as with the organizers themselves, we learned from the first virtual events, and optimized our presence gradually. Especially our colleagues from the Business Development area were “on site” with their own presentations, while at the same time keeping their eyes and ears open for presentations and talks given by other companies and organizations. Making contacts, exchanging ideas in one-to-one sessions, identifying market trends – everything is a bit more complicated in the virtual world, but feasible.

We are proud that one of our scientists has once again been invited to speak in a scientific capacity at a renowned international cosmetics conference. His area of expertise – the devel-



opment of an *in vitro* model based on skin cells, which can be utilized in the laboratory to test substances from the BRAIN BioArchive for their bioactivity, for example – once again impressed the experts.

## Social Media

We launched our social media activities in August 2017. Our BRAIN Twitter channel (@BRAIN biotech) recorded just over 600 followers as of the end of the business year – not a bad result for a specialist company in the industrial biotechnology area, but also no reason to sit back and relax. Our Group company Biocatalysts (@Biocats) sets us a good example with over 1,000 Twitter followers.

On LinkedIn, the BRAIN company was followed by more than 1,300 people as of the end of September – and we are pleased to see that the number of our followers is increasing almost daily. Our latest channel, the company's own "News & Views" channel, is also making its own contribution in this context.



Link to our News & Views channel:  
[www.brain-biotech.com/news](http://www.brain-biotech.com/news)



BRAIN on Twitter:  
@BRAINbiotech

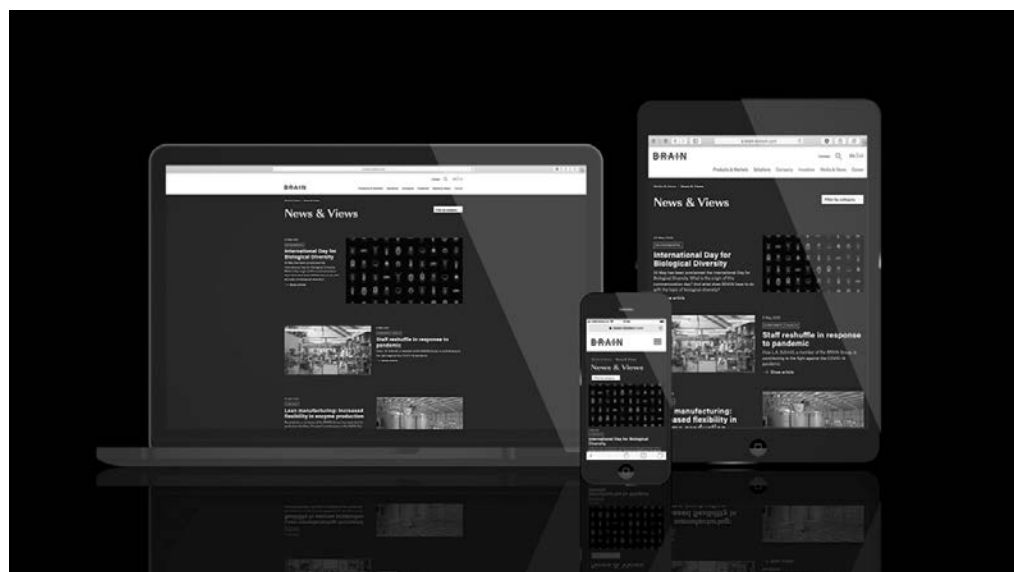


BRAIN LinkedIn account:  
@BRAIN AG

## "News & Views" channel

As the BRAIN Group grew in size, and the variety of its thematic areas increased, the idea of publishing topics and stories that do not justify a press release, but which could still be of interest to our stakeholders, became firmly established in 2019. This led to the creation of the company's own "News & Views" channel, which was launched in May 2020, and through which a total of 24 articles, including interviews, were published by the end of the business year. A newsletter, mainly fed by these contents, offers readers the possibility to be regularly informed about BRAIN's news items. "News & Views" and a registration form for the newsletter can be found under the main menu item "Media & News" on the BRAIN website at corresponding [www.brain-biotech.com](http://www.brain-biotech.com).

We have also expanded our capital market communications. See page 52 for more information.



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# The BRAIN share and the capital market

- BRAIN AG is a growth company in the up-and-coming industrial biotechnology area, and remains the only listed company of its type on the German equity market.
- Its share already reached its 52-week high on 2 October 2019 at € 13.32<sup>1</sup>.
- It touched its low on 17 March 2020 at € 5.64.
- Based on the closing price of € 7.10 on the last trading day of the financial year (30 September 2020), the reduction in the share price compared with the previous year's close of € 11.98 amounts to 40.7%.
- BRAIN AG strengthened its investor relations area in the past financial year, and at its second Capital Markets Day provided particularly comprehensive information about its medium-term strategy.

## The capital markets environment

The 2019/2020 financial year was characterized by the coronavirus crisis and the general economic uncertainty that accompanied it, with attendant sharp fluctuations in the capital markets. Concerns about a recession, the US elections, simmering trade conflicts, a potentially disorderly Brexit and particularly the coronavirus lockdown in the first quarter of 2020, led to considerable volatility in the world's stock markets. In Germany's leading index, the DAX, a sharp fall at the beginning of the year of -40% (17.01.2020 – 16.03.2020) was followed by a remarkably rapid recovery. The DAX started the BRAIN financial year at 12,791 points, reaching its high for the year of 13,789 points on 19 February 2020, and its low for the year of 8,442 points on 18 March 2020. The SDAX Small Cap Index, which is more relevant for BRAIN, outperformed its large cap counterpart, the DAX, over the same period. The specialty chemicals sector index underperformed the SDAX, although it outperformed the BRAIN AG share.

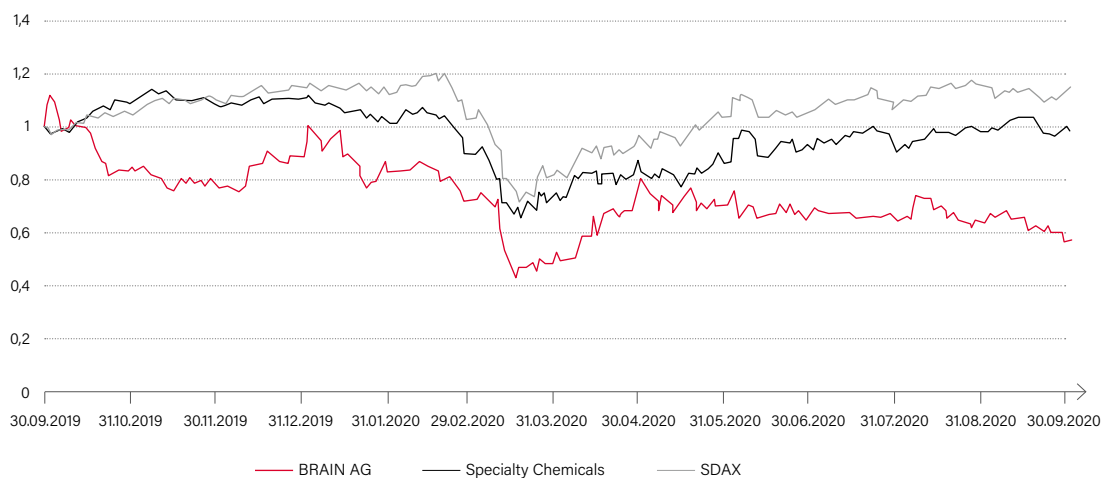
The capital market environment is largely characterized by persistent low interest rate conditions, ultra-loose monetary policy, and now also the massive government stimulus measures that have been unleashed in order to mitigate the effects of the pandemic. In the equity market, this environment favors technology stocks, growth stocks and companies from less cyclical sectors. In the biotechnology sector, companies related to vaccine and drug development for COVID-19 recorded a remarkably positive performance in their share prices.

While global stock markets have largely recovered to pre-pandemic levels, the real economy is following with a significant lag. According to economists' forecasts, it will take between three and five years for economies to return to their pre-pandemic levels. Different sectors are affected to a considerably different extent, and in some cases are additionally threatened by disruptive technologies. As a growth industry, the biotechnology sector is less affected by the global recession.

<sup>1</sup> In each case based on the XETRA closing price.



FIGURE 02.3 PERFORMANCE OF THE BRAIN SHARE IN THE 2019/20 FINANCIAL YEAR (INDEXED)



## The BRAIN share

BRAIN AG is a growth company with a focus on industrial biotechnology. In addition to the general capital market environment, the future outlook and growth prospects of BRAIN AG are the main drivers of its share price.

The share started the new BRAIN 2019/2020 financial year on 1 October 2019 at a price of € 13.16 (previous-year close on 30 September 2019: € 11.98). The BRAIN share already reached its high for the financial year under review of € 13.32 on 2 October 2019. The BRAIN share also proved unable to escape the sharp fall in global stock markets over the January to March 2020 period, which was due to the global pandemic, trading at its low for the year of € 5.64 on 17 March 2020.

In the subsequent market recovery, the share price rose to € 9.80 (Xetra closing price on 29 April 2020). Despite solid revenue growth that continued during the pandemic, and a significant reduction in the company's adjusted EBITDA loss, the share was unable to reach its previous high for the year. Given a closing price of € 7.10 on the last trading day of the financial year on 30 September 2020, the performance over the year amounted to -40.7 % compared with the previous year's closing price (€ 11.98). The BRAIN share thereby significantly underperformed both the SDAX (+13%) and the Specialty Chemicals DAXsubsector (-2.7%).

As of 1 May 2020, BRAIN AG further strengthened its investor communications with the appointment of an experienced capital market expert as Head of Investor Relations.

On 15 September 2020, BRAIN AG held its second Capital Markets Day (CMD) at its headquarters in Zwingenberg, as well as virtually as a webcast. As part of this analyst and investor communication event, the management of BRAIN AG reported in particular detail on the company's future corporate strategy, value drivers and medium-term financial targets. All presentations from the CMD can be viewed on the Internet at [www.brain-biotech.com/investors/capital-markets-day](http://www.brain-biotech.com/investors/capital-markets-day).

TABLE 02.1 KEY SHARE DATA

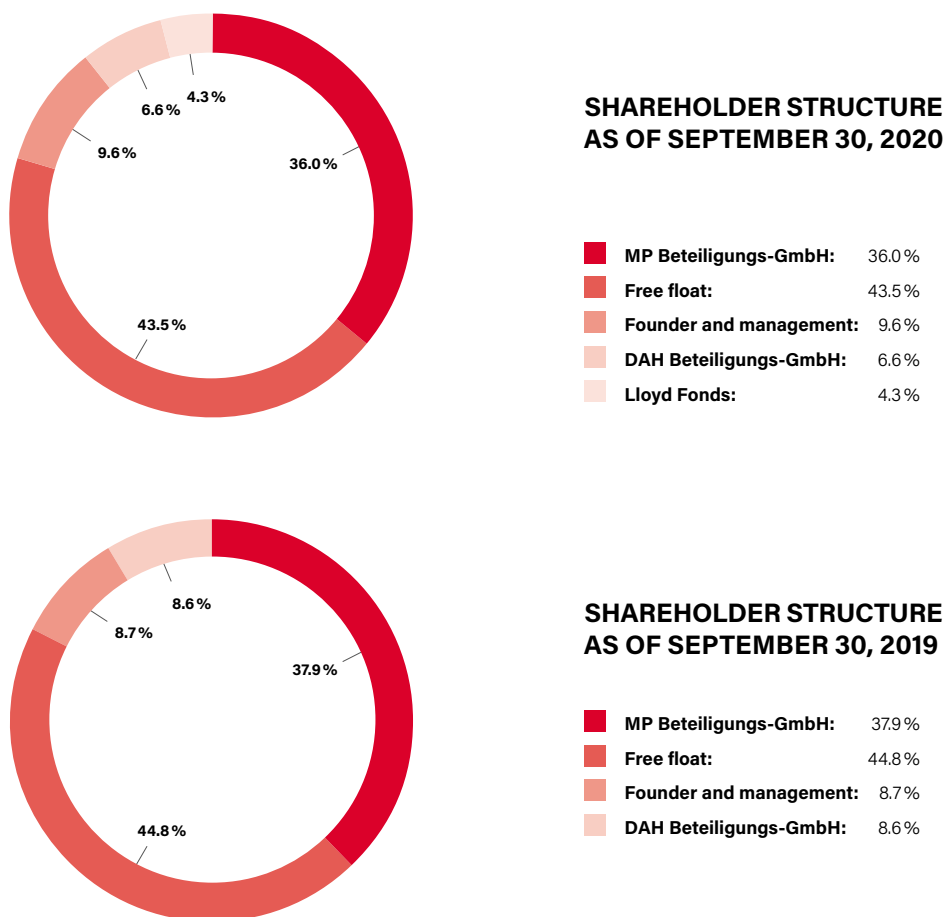
|   |  |
|---|--|
| <b>Share class</b>  | No-par-value registered shares                                     |
| <b>Stock exchanges</b>  | XETRA, Frankfurt, Berlin, Düsseldorf, Munich, Stuttgart, Tradegate |
| <b>Transparency level</b>   | Prime Standard   |
| <b>Number of shares</b>   | 19,861,360   |
| <b>Share capital</b>  | € 19,861,360   |
| <b>ISIN</b>   | DE0005203947   |
| <b>WKN</b>  | 520394   |
| <b>Ticker symbol</b>  | BNN  |
| <b>Specialist</b>   | ODDO SEYDLER Bank AG   |
| <b>Designated Sponsor</b>   | ODDO SEYDLER Bank AG   |
| <b>Paying agent</b>   | Bankhaus Gebr. Martin  |
| <b>Share price on 30.09.2020<sup>2</sup></b>                                | € 7.10   |
| <b>52-week high</b>   | € 13.32  |
| <b>52-week low</b>  | € 5.64   |
| <b>Market capitalization on 30.09.2020<sup>2</sup></b>                      | € 141 million  |
| <b>Average daily trading volume (52 weeks as of 30.09.2020<sup>2</sup>)</b> | 13,705 shares/day  |

<sup>2</sup> Last trading day of the 2019/20 financial year.

## Shareholder structure

On June 4, 2020, BRAIN AG successfully placed 1,805,578 new shares from its authorized capital at € 8.30 with institutional investors as part of an accelerated placement process. This increased the number of shares of BRAIN AG in issue in the 2019/20 financial year from 18,055,782 to 19,861,360 shares. With Lloyd Fonds AG, we gained a new shareholder above the 3% notification threshold. The free float stood at 43.5% as of 30 September 2020. The shareholder structure of BRAIN AG as of 30 September 2020 (and as of the previous year's reporting date) was as follows:

FIGURE 02.4 SHAREHOLDER STRUCTURE



## Analysts

Estimates and recommendations relating to BRAIN AG are published by the following research houses<sup>3</sup>:

| Company                                | Analyst                          |
|--|----------------------------------|
| <b>Baader Helvea Equity Research</b>   | Laura López Pineda, Markus Mayer |
| <b>Deutsche Bank AG</b>                | Falko Friedrichs                 |
| <b>DZ Bank, Frankfurt</b>              | Peter Spengler                   |
| <b>FMR Research AG</b>                 | Dr. Christian Ehmann             |
| <b>Pareto Securities AS, Frankfurt</b> | Dennis Berzhanin                 |

## Financial communication

BRAIN AG is listed on the Frankfurt Stock Exchange in the Prime Standard segment of the Regulated Market, the stock exchange segment entailing the highest transparency requirements. Along with corresponding mandatory publications including quarterly statements and the half-year financial report, BRAIN informed investors, analysts and other interested capital market participants in four ad hoc announcements, 17 press announcements and 15 investor relations announcements, as well as through telephone conferences and numerous individual meetings, about the company's further development and about the bioeconomy's global growth potential. Company representatives were also consistently available for discussions in the context of roadshows and relevant conferences, such as the ODDO-BHF Finance Conference in January in Lyon, the Baader Investment Conference in Munich, as well as the Equity Capital Forum in Frankfurt/Main. The focus was on presenting the company and its future prospects to both new and existing investors. At its second Capital Markets Day held on 15 September 2020 in Zwingenberg, BRAIN AG provided analysts and institutional investors with particularly comprehensive information on its medium-term strategy. Financial announcements and publications as well as all other publications of relevance to the capital market are permanently available on the company's website at [www.brain-biotech.com/investors](http://www.brain-biotech.com/investors).

## Annual General Meeting

The fourth public Ordinary AGM of BRAIN AG was held on 5 March 2020 in Zwingenberg. A total of 70.03 % of the share capital of BRAIN AG, which is divided into 18,055,782 shares, was represented. The voting results are published on the Internet at [www.brain-biotech.com/investors/annual-general-meetings](http://www.brain-biotech.com/investors/annual-general-meetings). The resolutions on the approval of the actions of the members of the Management and Supervisory boards for the 2018/19 financial year, the election of the auditor, the extension of Dr. Kellinghusen's Supervisory Board mandate, and the resolution on the cancellation of an existing conditional capital framework, as well as the authorization to issue a new conditional capital framework, together with an amendment to the company's by-laws, were submitted to the vote.

<sup>3</sup> as at 30.09.2020

# Declaration on Corporate Governance



# Declaration on Corporate Governance

The Management and Supervisory boards of B.R.A.I.N. Biotechnology Research and Information Network AG (hereinafter referred to as BRAIN AG or the company) are oriented to sustained commercial and financial performance while fulfilling their societal responsibility. Transparency, responsibility and sustainability are the guiding values of their actions. This statement combines the corporate governance statement of BRAIN AG pursuant to Section 289f of the German Commercial Code (HGB) and the Group corporate governance statement for the BRAIN Group pursuant to Section 315d HGB. It comprises the statement of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG), relevant information about corporate governance practices, the description of Management and Supervisory boards' working methodology, as well as the composition of their committees.

## **Statement by the Management and Supervisory boards of the conformity of BRAIN AG with the recommendations of the German Corporate Governance Code (DCGK) pursuant to Section 161 of the German Stock Corporation Act (AktG)**

The Management and Supervisory boards of BRAIN AG declare that since the last statement of conformity was issued on 20 December 2019, BRAIN AG has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated 24 April 2017 (including correction dated 17 May 2017) with the following exceptions until 20 March 2020 (when the new version of the DCGK came into force).

- **Number 3.8 (3):** The Code recommends that in a D&O insurance policy (directors & officers liability insurance) for Supervisory Board members a deductible equivalent to at least 10% of the loss up to a minimum of one and a half times the fixed annual compensation be agreed. BRAIN AG has taken out D&O insurance cover, although it currently includes no deductible for the Supervisory Board members. The company regards a deductible as generally unsuited to enhancing the quality of Supervisory Board activity, while at the same time it diminishes the attractiveness of the Supervisory Board mandate, making it more difficult to compete for suitably qualified candidates.
- **Number 4.2.3 (2) Clause 2:** The Code recommends that variable compensation elements should generally have a multi-year measurement basis relating mainly to the future. To this end, the company has decided that the variable compensation component in Management Board contracts should continue to be calculated applying a one-year measurement basis for the time being. However, the company regularly reviews whether to adjust Management Board compensation by way of mutual agreement. The company has also approved an employee

stock ownership plan (ESOP) for the Management Board members, which ensures that they are exposed to a long-term incentive effect.

- **Number 5.1.2 (2) Clause 3:** The Code recommends setting an age limit for Management Board members. Given the age of the Management Board members in office, BRAIN AG has not set an age limit for the Management Board members to date. The Supervisory Board of BRAIN AG is reviewing whether such an age limit should be set in the future.
- **Number 5.4.1 (2) Clauses 1 and 2:** The Code recommends that supervisory boards set specific targets for their composition and develop a competency profile for the overall board. While considering the specifics of the enterprise, the composition of the supervisory board should take into appropriate account the company's international activities, potential conflicts of interest, the number of independent Supervisory Board members in the meaning of Number 5.4.2, setting an age limit for Supervisory Board members, and determining a standard limit to Supervisory Board membership, as well as diversity. The Supervisory Board's current composition is based on the competency profile that was prepared. To date, no regulations have been set for an age limit and a limit for a regular duration of membership of the Supervisory Board. For the time being, the Supervisory Board has decided not to set any age limit and no normal limit for the duration of Supervisory Board membership. However, it engages with both of these issues in the case proposed elections to the Supervisory Board, taking the respective individual into consideration.
- **Number 7.1.2 Clause 3, semi-clause 1:** The Code recommends publishing consolidated financial statements and the group management report within 90 days after the financial year-end. Due to the additional financial accounting requirements as a listed company, the auditing of the financial statements lasted, and lasts, longer than 90 days, so that the audited figures cannot be published with the annual report within 90 days after the financial year-end, but instead not until after the expiry of 90 days. Prospectively, this will also remain the case with future annual consolidated financial statements.
- **Number 7.1.2 Clause 3, semi-clause 2:** The Code recommends publishing mandatory interim financial information within 45 days after the end of the reporting period. In relation to the publication of interim reports, BRAIN AG complies with statutory regulations as well as the Prime Standard stock exchange regulations of the Frankfurt Stock Exchange. The Management and Supervisory boards regard these as appropriate. Furthermore, in light of various unlisted subsidiaries and participating interests held abroad, publication within shorter periods would necessitate the deployment of considerable financial and personnel resources that would not be appropriately related to the information that shareholders require for a company the size of BRAIN AG. As a consequence, the 45 days required in the Corporate Governance Code are not complied with. Publication nevertheless occurs within the two- or three-month periods valid pursuant to Prime Standard regulations.

The Management and Supervisory boards of BRAIN AG declare that since the last statement of conformity on 20 December 2019, BRAIN AG has complied with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated 20 March 2020 ("DCGK 2020"), and will continue to comply with them in the future, with the following exceptions.



- **Section B.5 DCGK 2020:** An age limit shall be specified for members of the Board of Management and shall be stated in the corporate governance statement.

The company has not yet set an age limit for members of the Supervisory Board. Given the age of the current Management Board members, BRAIN AG has not set an age limit for the Management Board members to date. Since the new GCGC 2020 also recommends an age limit, the Supervisory Board has decided on an age limit for the Management Board with effect from 11 December 2020. For this reason, a deviation is declared for the past with respect to the DCGK 2020.

- **Section C.2, semi-clause 1 DCGK 2020:** An age limit shall be specified for members of the Supervisory Board and shall be stated in the corporate governance statement.

The company has not yet set an age limit for members of the Supervisory Board. In the Supervisory Board's opinion, this has enabled continuity and many years of expertise on the Supervisory Board in the interests of the company. As the new DCGK 2020 also recommends an age limit, the Supervisory Board has decided on an age limit for new members joining the Supervisory Board with effect from 11 December 2020. For this reason, a deviation is declared for the past with respect to the DCGK 2020.

- **Section D.1, semi-clause 2 DCGK 2020:** The Supervisory Board shall adopt rules of procedure for itself and make them available on the company's website.

This is a new recommendation of the DCGK 2020 with regard to publication on the company's website. The company's existing rules of procedure for the Supervisory Board were not previously available on the company's website. Following the entry into force of the DCGK 2020, the Supervisory Board adopted updated rules of procedure, which have been available on the company's website since May 2020. For this reason, a deviation is declared for the past with respect to the DCGK 2020.

- **Section D.11 GCGC 2020:** The Audit Committee shall regularly assess the quality of the audit of the financial statements.

This is a new recommendation of the DCGK 2020. A formalized assessment of the quality of the audit of the financial statements by the Supervisory Board has not been performed in the past, although the quality of the audit has always been taken into account in the proposals for the appointment of the auditors. The formalized assessment by the Supervisory Board will take place for the first time after the end of the audit of the 2019/20 financial statements. For this reason, as a precaution, a deviation is declared here for the past.

- **Section F.2 GCGC 2020:** The consolidated financial statements and the Group management report shall be publicly accessible within 90 days of the end of the financial year; the mandatory interim financial information shall be publicly accessible within 45 days of the end of the reporting period.

Due to the additional financial accounting requirements as a listed company, the auditing of the financial statements lasted, and lasts, longer than 90 days, so that the audited figures cannot be published with the annual report within 90 days after the financial year-end, but instead not until after the expiry of 90 days. Prospectively, this will also remain the case with future annual consolidated financial statements. In relation to the publication of interim reports, BRAIN AG complies with statutory regulations as well as the Prime Standard stock exchange regulations of the Frankfurt Stock Exchange. Publication nevertheless occurs within the two-

or three-month periods valid pursuant to Prime Standard regulations. The Management and Supervisory boards regard these as appropriate.

Furthermore, in light of various unlisted subsidiaries and participating interests held abroad, publication of the consolidated financial statements and the Group management report as well as mandatory interim financial information within shorter periods would necessitate the deployment of considerable financial and personnel resources that would not be appropriately related to the information that shareholders require for a company the size of BRAIN AG. As a consequence, the periods required in the Corporate Governance Code are not complied with.

### Management Board compensation

Since publication of the DCGK 2020, recommendations G.1, G.2, G.3, G.4, G.7, G.9, G.10, G.11 and G.12 have not yet been implemented. The reasons for this are, firstly, the transitional provisions for the new regulations introduced into the German Stock Corporation Act (AktG) by the Act Implementing the Second Shareholders' Rights Directive (ARUG II), and, secondly, the applicable agreements on Management Board compensation in the Management Board contracts still in force.

#### In detail:

To the extent that section G of the DCGK 2020 links to the existence of a compensation scheme in the meaning of Section 87a AktG in the version applicable as of 1 January 2020, the corresponding recommendations could not yet be complied with, as the Supervisory Board – in accordance with the transitional provision of Section 26j of the Introductory Act to the Stock Corporation Act (EGAktG) – will pass a resolution concerning this new compensation scheme by the beginning of 2021 after in-depth discussion, and submit it to the company's shareholders for approval at the 2021 Annual General Meeting. The remuneration structure applicable to date has been and will be reported on in the compensation report.

The company is bound by the agreements entered into until the respective end of a Management Board member's contract.

In the course of the transfer of the position of Chief Financial Officer from Mr. Bender to Mr. Linnig in summer 2020, the Supervisory Board decided to initially structure the contractual conditions for Mr. Linnig in a manner comparable to previous Management Board contracts.

If either of the two current Management Board members' contracts are extended, the corresponding necessary adjustments to these contracts will be arranged on the basis of an approved compensation scheme. An earlier adjustment of the Management Board members' contracts by mutual consent is not excluded.

Zwingenberg, December 2020

For the Supervisory Board of BRAIN AG:



**Dr. Georg Kellinghusen**  
Supervisory Board Chairman

For the Management Board of BRAIN AG:



**Adriaan Moelker**  
Management Board Chairman (CEO)

## Relevant information about corporate governance practices

The corporate structure is oriented to the responsible, transparent and efficient management and controlling of the company. For this reason, the company also supports the targets and principles of the German Corporate Governance Code (DCGK). The Management and Supervisory boards as well as the other management levels and employees are obligated to adhere to these principles of responsible corporate governance. The Management Board is responsible for compliance with corporate governance principles within the company.

BRAIN AG has established compliance structures in the light of the company's current size, and will further develop them in relation to growing requirements imposed by the regulatory environment and with a view to the company's development and growth.

BRAIN AG has also established whistle-blower arrangements for potential misconduct on the part of its own employees. Employees can notify the whistle-blower office of potential misconduct, either anonymously or openly. After initial allocation, and depending on the corporate areas involved, the whistle-blower office forwards such notification to the Management Board and/or Supervisory Board to instigate countermeasures in the instance of actual misconduct, or for archiving at the whistle-blower office if it is established that no misconduct has occurred.

Furthermore, BRAIN AG has decided to obligate its subsidiaries' managers to comply with closed periods 30 days before the publication of business results. This enables transparent communication with the respective managers in the periods preceding the publication of business results, and ensures that the same governance rules apply to the persons involved.

The purpose of BRAIN AG and of the BRAIN Group is to identify, research, develop, produce and market biological, biochemical and biotechnology processes and products, especially enzymes, biocatalysts, microorganisms and other bioactive natural compounds for industrial applications at chemical companies, for the production of foodstuffs and animal feed, cosmetics and medical products, for the disposal of waste and hazardous materials, as well as to produce energy and raw materials, including the development, production and marketing of such processes and products that contain bioactive components, are based on biotechnical mechanisms, exhibit bioactive effects, or enable biotechnology applications. Within the BRAIN Group, services are also rendered for the pharmaceuticals industry.

The company complies with all statutory corporate governance regulations as well as the recommendations of the German Corporate Governance Code (DCGK) – apart from the exceptions specified and justified in the statement of conformity.

As far as the DCGK recommendations are concerned, the company also intends to comply with them in the future.

The Articles of Association of the Company can always be viewed on the Company's website at [www.brain-biotech.com/investors/corporate-governance](http://www.brain-biotech.com/investors/corporate-governance).



[www.brain-biotech.com/  
investors/corporate-  
governance](http://www.brain-biotech.com/investors/corporate-governance)

### **Transparency**

The shares of BRAIN AG are listed in the Prime Standard segment of the Frankfurt Stock Exchange. The company is thereby subject to the highest level of statutory and stock exchange law transparency regulations. In particular, BRAIN AG reports on the situation and development of the company and Group in both German and English in the following form:

- annual financial report for the financial year,
- interim financial report as of the first half of the financial year (6M),
- quarterly statements as of the first quarter (3M) and after the first nine months of the financial year (9M),
- quarterly conference call calls,
- corporate presentations,
- publication of insider information, corporate announcements and IR announcements,
- publication of notifications of shareholding threshold levels,
- publication of ad hoc statements,
- publication of PR, IR and marketing releases.

### **Corporate responsibility and ESG**

As corporate responsibility and ESG issues become more important, the Supervisory Board, the Management Board and employees are paying more attention than ever to the resultant aspects. Consequently, BRAIN AG intends to prepare a corporate responsibility report for the next financial year. Adriaan Moelker holds Management Board responsibility for Corporate Responsibility and ESG.

## **Description of the Management and Supervisory boards' working methodology as well as composition and working methodology of the Supervisory Board's committees**

BRAIN AG is a public stock corporation under German law and the parent company of the BRAIN Group with subsidiaries in Germany, France, England and the USA. It is especially subject to the regulations of the German Stock Corporation Act (AktG), and also operates the normal dual executive and supervisory structure consisting of a management board and a supervisory board. The company's Management and Supervisory boards work together closely in the company's interest.

The Supervisory Board consults regularly with the Management Board concerning the management of BRAIN AG, and supervises the Management Board's activities. The Management Board involves the Supervisory Board in good time concerning all decisions of fundamental significance for the company. It coordinates the company's strategic orientation with the Supervisory Board, and discusses with it the status of strategy implementation at regular intervals. The Management and Supervisory boards' joint goal is to successfully implement the corporate and growth strategy that has been approved.

### **Management Board working methodology**

The Management Board manages the company's business according to statutory regulations, the company's bylaws and the rules of business procedure for the Management and Supervisory boards. It is subject in this context to the restrictions that the company's bylaws or the Management and Supervisory boards' rules of business procedure have established in relation to the power to manage the business, or which the Supervisory

Board or the AGM determine within the scope of their powers. It informs the Supervisory Board regularly, promptly and comprehensively in the form of detailed written and verbal reports on all questions of relevance to the company relating to strategy, planning, business development, the risk position, risk management and compliance. The Management Board prepares the separate and consolidated annual financial statements.

Pursuant to Section 7 (1) of the company's bylaws, the Management Board consists of one or several individuals. The Supervisory Board determines the number of Management Board members. The Supervisory Board appoints the Management Board members, recalls them from office, and determines the allocation of their responsibilities. It can also appoint a Management Board Chair (CEO) and a Deputy Management Board Chair, as well as deputy Management Board members.

### Composition of the Management Board

During the 2019/2020 financial year, the Management Board of BRAIN AG consisted of the following members:

TABLE 03.1 COMPOSITION OF THE MANAGEMENT BOARD

| Name            | Role                    | Management Board member since | Mandate end       | Contract end      |
|-----------------|-------------------------|-------------------------------|-------------------|-------------------|
| Dr. Jürgen Eck  | Chief Executive Officer | 21 June 2000                  | 31 December 2019  | 30 June 2020      |
| Adriaan Moelker | Chief Executive Officer | 1 February 2020               |                   | 31 January 2024   |
| Manfred Bender  | Chief Financial Officer | 1 Dezember 2018               | 30 September 2020 | 30 September 2020 |
| Ludger Roedder  | Chief Business Officer  | 1 January 2019                | 7 July 2020       | 31 December 2020  |

All Management Board members are individually responsible for managing the business division with which they are entrusted; the company's overall interest has to be taken into consideration at all times in this context. The allocation of business areas to the individual Management Board members is derived from the business allocation plan that is prepared with the Supervisory Board's approval, and can be modified at any time with its approval.

The business allocation plan includes the following allocations during the 2019/20 financial year:

#### Dr. Jürgen Eck (Chief Executive Officer - CEO):

- Business development of the BioScience segment
- Technology management, research and development, technological process optimization
- Grants and academic partnerships

#### Adriaan Moelker (Chief Executive Officer - CEO):

from February 2020

- Corporate strategy
- Coordinating the individual Management Board areas and contacts with the company's boards
- Business development of the BioScience segment
- Business development of the BioIndustrial segment
- Press and public relations work (corporate communications)
- Technology management, research and development, technological process optimization
- Personnel, purchasing
- Grants and academic partnerships

- IT, digitalization
- Product development
- Formulation and application technology
- Production, scale-up
- Innovation management
- Registration and approval
- Patent strategy

**Manfred Bender (Chief Financial Officer – CFO):**

- Coordinating the individual Management Board areas and contacts with the company's boards (until February 2020)
- Corporate strategy (until February 2020)
- Press and public relations (corporate communications) (until February 2020)
- Financial communications (IR)
- Accounting and controlling
- Personnel (until February 2020)
- Compliance and quality assurance
- Risk management
- Legal, administration and organization, Group audit
- IT, digitalization (until February 2020)
- Purchasing (until February 2020)
- Management of equity interests, M&A (corporate finance)
- Business process optimization (until February 2020)

**Ludger Roedder (Chief Business Officer – CBO):**

- until February 2020
- Business development of the BioIndustrial segment
- Product development
- Formulation and application technology
- Production, scale-up
- Registration and approvals, commercialization strategy
- Innovation management
- Patent strategy
- Press and public relations work (market and customer communications) from February 2020
- Development and expansion of the US and South American markets
- Establishment of a joint US sales office
- M&A US market

The Management Board has a set of rules of business procedure. The rules of business procedure for the Management Board were approved by the Supervisory Board and the allocation of business responsibilities was last updated in February 2020 in accordance with the Management Board's proposal. These particularly include regulations about the working methodology of the Management Board and the allocation of responsibilities between the Management Board members, as well as relating to collaboration with the Supervisory Board. They include a catalog of actions and legal transactions requiring Supervisory Board assent.

The Personnel Committee of the Supervisory Board undertakes discussing long-term succession options with the Management Board. The Management Board and the Supervisory Board agree on requirements for the appointment of successors based on the planned development of the Company, which provide guidelines for the selection of candidates. The Supervisory Board strives to achieve a staggered duration of the mandates in the future, if possible, by means of mandate extensions or new appointments, so that it would not be necessary to fill several mandates of the Management Board at the same time, if no scheduled mandate extension takes place.

After the end of the reported fiscal year, the Supervisory Board decided on an age limit of 65 years for members of the Management Board.

### **Management Board meetings**

Management Board meetings are held as required, which is generally every two weeks. They must be convened if the company's interests so require. Management Board resolutions are passed with a simple majority of the votes cast, unless statutory provisions prescribe another majority. If the Management Board consists of at least three members, the vote of the Management Board Chair (CEO) is decisive given an equal number of votes.

### **Collaboration with subsidiaries**

At least once a quarter, the Management Board of BRAIN AG and the management of the subsidiaries meet in person or hold conference calls on the course of business and forthcoming developments at the subsidiaries. The subsidiaries report monthly to BRAIN AG and consult with the Management Board at short notice in the event of deviations from the planning or forecast. The Management Board reports to the Supervisory Board on reporting and coordination with the subsidiaries and, if requisite, consults with it separately on individual topics.

### **Management Board compensation**

The Supervisory Board sets Management Board compensation at an appropriate level on the basis of performance appraisal and reflecting any Group remuneration. It also regularly reviews such compensation. When setting and reviewing Management Board compensation, the Supervisory Board takes into consideration the fact that – pursuant to the provisions set out in Section 87 (1) AktG – the total compensation of an individual Management Board member must be suitably related to the Management Board member's responsibilities and performance as well as the company's position, and must not exceed normal compensation without special reasons. Consequently, particular criteria for setting appropriate Management Board compensation include the tasks and responsibilities of the individual Management Board members, their personal performance, the performance of the overall Management Board, the company's business and financial position, the company's success and future prospects, and the level and structure of Management Board compensation at comparable companies. The compensation scheme of BRAIN AG is oriented to the company's sustainable development and growth. Compensation is set so that it is competitive in a national and international comparison, thereby offering an incentive for committed and successful work.

The Management Board compensation scheme is especially oriented to the company's sustainable development and growth. The monetary compensation components include fixed elements and one variable element. The Supervisory Board in each case sets the targets for one-year variable compensation for one financial year. A subsequent change of the assessment parameters is not foreseen. Variable compensation can take both positive and negative developments into account. Along with these elements, the Management Board members receive ancillary benefits such as contributions to insurance policies and pensions. The employee stock ownership plan, which has also been updated, ensures long-term incentive effects for the Management Board members.

A remuneration scheme in accordance with the requirements of Section 87a of the German Stock Corporation Act (AktG) will be submitted for approval to the shareholders at the next Annual General Meeting, scheduled for 10 March 2021, in accordance with Section 120a of the German Stock Corporation Act.

The Company has taken out a directors' and officers' liability insurance (D&O insurance) for the members of the Management Board and the Supervisory Board with an appropriate deductible in accordance with Section 93 (2) sentence 3 German Stock Corporation Act (AktG) (Management Board).

Detailed information on the compensation structure and compensation of the individual members of the Management Board and the compensation of the members of the Supervisory Board can be found in the compensation report as part of the Group management report of the Company. This can be found in the notes to the consolidated financial statements.

→ Group management report / compensation report page 88

#### **Notifiable securities transactions**

The Management and Supervisory board members, other individuals with management regularly access to the company's insider information and who are authorized to take important business decisions as well as certain individuals closely related to the aforementioned, are obligated by law to disclose to BRAIN AG the purchase and sale of BRAIN shares and related financial instruments, especially derivatives, from upwards of an amount of € 20,000 in the calendar year. Notifications of corresponding transactions are also published on our website at [www.brain-biotech.com/investors](http://www.brain-biotech.com/investors). For the 2019/20 financial year, the company was notified of such a securities transaction by Adriaan Moelker (published on 8 June 2020). Adriaan Moelker purchased shares for a price totaling € 42,500.00.



[www.brain-biotech.com/investors](http://www.brain-biotech.com/investors)

#### **Supervisory Board working methodology**

The Supervisory Board has all responsibilities and rights transferred or allocated to it by law, the company's bylaws, or in another manner. This especially includes supervising the executive management of the company, the appointment and dismissal of Management Board members, as well as the amendment, cancellation and termination of employment contracts with the Management Board members. The Supervisory Board consults regularly with the Management Board concerning the management of the company. The Supervisory Board is involved in good time in all decisions of fundamental significance for the company. The Supervisory Board has established a set of rules for its own business procedures. These include, among other matters, the working methodology and type of passing of resolutions on the Supervisory Board, as well as the tasks of the Supervisory Board committees that are formed (the Audit Committee, the Personnel Committee, the M&A Committee and the Nomination Committee). Separate sets of rules are also approved through the committees to regulate their working methodologies. All rules of business procedure are adapted regularly to reflect any modifications to the German Corporate Governance Code (DCGK).

The Supervisory Board met for a total of five face-to-face meetings in the 2019/20 financial year. Otherwise the committees held six face-to-face meetings, and the Supervisory Board and its committees held nineteen conference calls. The Audit Committee held one face-to-face meeting and four conference calls in the 2019/20 financial year. The Personnel Committee held three face-to-face meetings in the 2019/20 financial year. The Nomination Committee held two face-to-face meetings and six conference calls in the 2019/20 financial year. The M&A Committee held no face-to-face meetings in the 2019/20 financial year. The Innovation Committee held no face-to-face meetings in the 2019/20 financial year. The M&A Committee and the Innovation Committee were dissolved as of May 2020, and have been replaced by bundled strategy meetings.



At the request of the Supervisory Board Chair, the Management Board participates in all ordinary Supervisory Board meetings, reports both in writing and verbally on all agenda items and proposed resolutions, and responds to questions from individual Supervisory Board members. The Supervisory Board Chair has the Management Board provide regular information concerning current business, forwarding such information in an appropriate form to the entire Supervisory Board.

Supervisory Board resolutions are generally passed at face-to-face meetings of the Supervisory Board members. Absent Supervisory Board members can submit a written vote through another Supervisory Board member. This also applies for the submission of the second vote of the Supervisory Board Chair. Outside the scope of attended meetings, the passing of resolutions is permissible through votes conveyed by written, telegram, telephone, telex or modern telecommunications means (by conference call or video conference or by email, for example), if so arranged for special reasons by the Supervisory Board Chair, or, if the Supervisory Board Chair is prevented from so doing, the Deputy Supervisory Board Chair. The Supervisory Board is considered quorate if all members are convened in good time via their last provided address, and at least half of the members of which it is to consist in total participate in the passing of the resolution. Supervisory Board members also participate in the passing of a resolution if they abstain from voting. Supervisory Board resolutions are passed with a simple majority of votes submitted, unless other majorities are required by law. This is also applicable in the case of elections. Abstentions are not counted when determining the results of voting. Given an equal number of votes, the Supervisory Board Chair – or if the Supervisory Board Chair is prevented from so doing, the Deputy Supervisory Board Chair – decides whether a further vote is to be held at the same meeting. Given a further vote on the same matter, the Supervisory Board Chair has two votes; the Deputy Supervisory Board Chair does not have this right to a second vote.

All Supervisory Board members must disclose conflicts of interest to the Supervisory Board, including potential conflicts of interest based on advising, or being a director of, a customer, supplier, lender or other third party, whereby this list is not conclusive. In the case of conflicts of interest that are significant or not just of a temporary nature, the respective Supervisory Board members must step down from office. The Supervisory Board provides information in its report to the AGM on conflicts of interest that arise and how they are handled. No conflicts of interest arose in the reporting period.

The Supervisory Board completed a self-assessment in August 2020. In order to conduct the self-assessment, the current situation was appraised based on questionnaires, and the results of the questionnaires were discussed by the Supervisory Board. After evaluating the results, the Supervisory Board notes that it performs its activities efficiently overall. Potential improvements identified as part of the audit are taken into consideration for the future. The Supervisory Board plans to conduct the next self-assessment in the 2022 calendar year.

### **Composition of the Supervisory Board**

Pursuant to Section 9 (1) of the company's bylaws, the Supervisory Board of BRAIN AG consists of six members elected by the AGM. Unless the AGM approves a shorter period for the election of individual members – or for the entire Supervisory Board – the Supervisory Board members are appointed until the end of the Ordinary AGM that approves the discharge for the third financial year after the start of the period of office. The year in which the period of office starts is not included in the calculation. Reelection is permissible. When a Supervisory Board member is elected, a replacement member can be elected at the same time who moves up to the Supervisory Board if the Supervisory Board member steps down before the end of the respective period of office without a successor having been appointed. The appointment of the replacement member moving up to the Supervisory Board in this manner lapses as soon as a successor for the departing member has been appointed, although this is to occur at the latest as of the end of the period of office of the departing Supervisory Board member.

The term of office of Dr. Martin B. Jager ended on 31 January 2020, when he stepped down from the Supervisory Board. The term of office of Dr. Rainer Marquardt ended with immediate effect on 27 February 2020, when he stepped down. The Supervisory Board consisted of four members from that date. As the Supervisory Board remained fully capable of acting and making decisions with this composition, no short-term court appointment was made. Rather, the selection process for proposals for new members was conducted in accordance with Section 104 (2) Clause 1 of the German Stock Corporation Act (AktG).

During the 2019/20 financial year, the Supervisory Board consisted of the following individuals:

TABLE 03.2 SUPERVISORY BOARD MEMBER

| Name / Role  | Member since | Appointed until the AGM in the respective FY | Further board mandates in 2019/20  |
|--|--------------|--|--|
| <b>Dr. Georg Kellinghusen</b><br>Chairman of the Supervisory Board       | 9 March 2017 | 2022/23                                      | <ul style="list-style-type: none"> <li>Member of the Advisory Board of NWB Verlag GmbH &amp; Co. KG, Herne</li> <li>Member of the Advisory Board of Advyce GmbH, Munich</li> <li>Member of the Advisory Board of Simplifa GmbH, Berlin</li> <li>Member of the Bavaria Advisory Board of Deutsche Bank AG, Frankfurt am Main (listed company)</li> </ul>                                  |
| <b>Dr. Martin B. Jager</b><br>Deputy Chairman<br>(until 31 January 2020) | 9 March 2017 | 2020/21 stepped down as of 31 January 2020   | <ul style="list-style-type: none"> <li>Managing Director and shareholder of InnoVest Nutrition GmbH, Kaiserslautern</li> <li>EIT Food iVZW, Belgium, Supervisory Board member</li> </ul>   |
| <b>Dr. Anna C. Eichhorn</b><br>Deputy Chair<br>(since 23 February 2020)  | 9 March 2017 | 2020/21                                      | <ul style="list-style-type: none"> <li>CEO of humatrix AG, Pfungstadt</li> <li>Management Board member (Deputy Chair) of Initiative gesundheitswirtschaft-rhein-main e.V.</li> <li>Member of the Supervisory Board of Frankfurter Innovationszentrum Biotechnologie (FIZ), Frankfurt am Main</li> <li>Member of the Management Board of House of Pharma &amp; Healthcare e.V.</li> </ul> |
| <b>Prof. Dr. Bernhard Hauer</b><br>Supervisory Board member              | 7 March 2019 | 2022/23                                      | <ul style="list-style-type: none"> <li>Member of the Scientific Advisory Board of Biosyntia ApS</li> <li>Member of the Scientific Advisory Board of Provivi, Inc.</li> <li>Member of the Scientific Advisory Board of Arzeda Corporation</li> </ul>  |
| <b>Dr. Michael Majerus</b><br>Supervisory Board member                   | 7 March 2019 | 2022/23                                      | <ul style="list-style-type: none"> <li>Member of the Management Board of SGL Carbon SE</li> <li>Member of the Supervisory Board of SGL CARBON LLC, Charlotte, USA</li> <li>Non-executive director on the Management Board of Deutsches Aktieninstitut e.V., Frankfurt am Main</li> </ul>   |
| <b>Dr. Rainer Marquardt</b><br>Supervisory Board member                  | 8 March 2018 | 2021/22 stepped down as of 27 February 2020  | <ul style="list-style-type: none"> <li>Member of the Board of Directors of FLYTXT B.V., Nieuwegein/Netherlands</li> <li>Advisory Board member of the One-football GmbH, Berlin</li> <li>Member of the Board of Directors of The Ark Pte. Ltd., Singapore</li> </ul>  |

All members of the Supervisory Board are independent in the meaning of Section 5.4.2 and C.6, C.7, C.9 of the GCGC.

The recommendations in Section 5.4.5 2nd paragraph, 2nd sentence or C.4 and C.5 of the CCGC regarding the total number of mandates held are complied with by the Supervisory Board members.

The competency profile and the objectives of the Supervisory Board are composed as follows: the Supervisory Board is of the opinion that one third of its members should cover with particular expertise the areas of entrepreneurship/new business as well as corporate finance/capital markets and the sector and fulfills all self-imposed requirements in the intended number, taking into account the members of the Supervisory Board reappointed in October. Moreover, the Supervisory Board regards the recruiting of a further individual with knowledge of the North American market of relevance to the company as a medium-term objective. In terms of diversity, the Supervisory Board wishes to continue for the time being with the ratio of women that it has achieved. The women's quota had already been reached. Taking into account the members of the Supervisory Board reappointed in October, the women's quota has increased further. The Supervisory Board has set an age limit of 75 years for Supervisory Board members who are newly elected. To date, the Supervisory Board has not set a limit for the maximum length of service.

In the course of the selection process for the reappointment of two Supervisory Board mandates, care is taken to ensure that proposals for new members match the competence profile.

### Committees

The Management Board of BRAIN AG has not formed any committees.

The Supervisory Board had formed a total of five committees to efficiently perform its work: an Audit Committee, a Personnel Committee, a Nomination Committee, a M&A Committee and an Innovation Committee. The committees prepare resolutions for the Supervisory Board as well as agenda items to be handled by the plenary meeting. In all cases, the committee chairs report on the committees' work at the subsequent meeting. The M&A Committee and the Innovations Committee were dissolved by way of resolution dated 28 May 2020. The Supervisory Board met in August of this year for a strategy meeting, and plans to continue this at six-monthly intervals. As part of the strategy meeting, topics previously dealt with in the two former committees will also be discussed.

#### **Audit Committee**

The Audit Committee consists of the following individuals until the end of their respective periods of office (the chair and up to two further members):

| Name  | Role   | Independence |
|---|--------|--------------|
| Dr. Michael Majerus                         | Chair  | yes          |
| Dr. Georg Kellinghusen                      | Member | yes          |
| Dr. Rainer Marquart, until 27 February 2020 | Member | yes          |
| Dr. Anna C. Eichhorn, since 05 March 2020   | Member | yes          |

The information on independence refers to the two versions of the GCGC applicable in the 2019/20 fiscal year and the criteria for assessing independence stated therein.

The Audit Committee concerns itself especially with the supervising of financial accounting, the financial accounting process, the efficacy of the internal control system, the risk management system, the internal audit system, the audit of the financial statements, as well as compliance. The Audit Committee submits a substantiated recommendation for the election of the auditor to the Supervisory Board, which comprises of at least two candidates if the audit mandate is to be put out to tender. The Audit Committee supervises the auditor's independence and concerns itself with services to be rendered additionally by the auditor, the award of the audit mandate to the auditor, the setting of focus audit areas, as well as arranging the auditor's fee.

Pursuant to the German Stock Corporation Act (Sections 107 (4), 100 (5) AktG), the audit committee must include at least one supervisory board member with expertise in the financial accounting or financial auditing areas. The Audit Committee Chairman, Dr. Michael Majerus, meets the statutory conditions pursuant to the German Stock Corporation Act (Sections 107 (4), 100 (5) AktG), and also possesses specialist knowledge as a head of financial accounting and CFO, including at three listed companies. His activities focus on controlling, financial questions and financial accounting, among other areas. Moreover, he commands a broad spectrum of knowledge in compliance topics as well as in the investor relations area.

### Personnel Committee

The Personnel Committee consists of the following individuals until the end of their respective periods of office (the chair and up to two further members):

| Name                                       | Role   |
|--|--|
| Dr. Georg Kellinghusen                     | Chair (independent within the meaning of section C.10, GCGC in force since March 20, 2020) |
| Dr. Martin B. Jager, until 31 January 2020 | Member   |
| Dr. Michael Majerus                        | Member   |

The Personnel Committee concerns itself mainly with personnel matters relating to the Management Board. In particular, it plays a preparatory role for the Supervisory Board in the selection, appointment and recall from office of Management Board members, the agreeing and supplementation of Management Board contracts and pension arrangements, setting the compensation scheme for Management Board members and its implementation in the Management Board contracts, target setting for the variable compensation, setting and reviewing the appropriateness of overall compensation of each individual Management Board member, and approving the annual compensation report. It also submits recommendations for resolutions. Moreover, the Personnel Committee can pass resolutions on the Supervisory Board's behalf in relation to the following matters: certain legal transactions with Management Board members (e.g. in the meaning of Section 112 of the German Stock Corporation Act [AktG]), and approving Management Board members' outside activities pursuant to Section 88 AktG, especially where Supervisory Board mandates outside the BRAIN Group are accepted.

### Nomination Committee

The Nomination Committee consists of the following individuals until the end of their respective periods of office (the chair and up to two further members):

| Name                   | Role   |
|------------------------|--------|
| Dr. Georg Kellinghusen | Chair  |
| Dr. Anna C. Eichhorn   | Member |

The Nomination Committee submits appropriate candidates to the Supervisory Board for it to propose to the AGM for election. Until further notice, two Supervisory Board members belong to the Nomination Committee.

### M&A Committee

Until 28 May 2020, the M&A Committee consisted of a chair and up to three further members. The committee was dissolved with effect from 28 May 2020. No meetings or conference calls were held after 31 January 2020:

| Name  | Role   |
|---|--------|
| Dr. Martin B. Jager, until 31 January 2020  | Chair  |
| Dr. Georg Kellinghusen                      | Member |
| Dr. Rainer Marquart, until 27 February 2020 | Member |

The M&A Committee advised the Management Board on all relevant strategic matters relating to the initiation and implementation of M&A transactions, especially in reviewing the strategic conformity of planned M&A measures, the implementation of acquisitions and disposals of companies or parts of companies, the valuation of target companies or transactions, the structuring and financing of transactions, the transaction-specific selection of suitable advisors, and the planning and implementation of integration scenarios. The M&A Committee prepared the decisions of the Supervisory Board in relation to the initiation and execution of M&A transactions, and prepares recommendations for Supervisory Board resolutions.

### **Innovation Committee**

The Innovation Committee was dissolved by way of resolution dated 28 May 2020. Until 28 May 2020, it consisted of the following individuals (a chair and up to two further members):

| Name                                       | Role   |
|--|--------|
| Dr. Anna C. Eichhorn                       | Chair  |
| Dr. Martin B. Jager, until 31 January 2020 | Member |
| Prof. Dr. Bernhard Hauer                   | Member |

The Innovation Committee advised the Management Board on all matters concerning the company's innovation strategy and innovation management, especially in relation to the design and development of new products and applications, the allocation of individual projects to business segments or subsidiaries, and the initiation and implementation of research and development partnerships. The Innovation Committee prepared the Corporate governance report – Corporate governance statement decisions of the Supervisory Board in relation to innovation strategy and innovation management, as well as related recommendations for Supervisory Board resolutions. The Innovation Committee held two meetings.

Remarks concerning the working methodology of the Management Board, the Supervisory Board, and the committees in the financial year are also presented in the report by the Supervisory Board, which is included in the annual report of BRAIN AG.

→ Report by the Supervisory Board page 12

### **Dialog with investors**

The Supervisory Board discussed the suggestion from Number 5.2 (2) and A.3 of the German Corporate Governance Code (DCGK), and was in favor of the Supervisory Board Chairman being available to answer investors' questions relating specifically to the Supervisory Board. The Management Board of BRAIN AG also welcomes this move.

### **Supervisory Board compensation**

Pursuant to Section 14 (1) of the company's bylaws, all Supervisory Board members receive not only reimbursement of their outlays but also a fixed annual payment of €15,000.00. The Supervisory Board Chair receives twice this amount, and the Deputy Supervisory Board Chair receives one and a half times this amount. Supervisory Board members who have not been Supervisory Board members for a full year of service receive

the aforementioned compensation pro rata temporis to the level of one twelfth for each month of service they commence. Furthermore, all Supervisory Board members a meeting fee of €1,000.00 for each meeting of the Supervisory Board and Committees they attend. The chairs of the Supervisory Board committees also receive an annual payment of €15,000.00.

For the members of the Supervisory boards, the company has taken out D&O (directors & officers) insurance cover. No deductible was arranged for Supervisory Board members.

The Compensation Report, which forms part of the company's Group Management Report, provides precise information about the compensation of the Supervisory Board members. This report is presented in the notes to the consolidated financial statements.

### **Commitment to promote participation by women in management positions pursuant to Section 76 (4) and Section 111 (5) of the German Stock Corporation Act (AktG)**

At its meeting on 23 September 2016, the Supervisory Board of BRAIN AG passed a resolution that the Supervisory Board should include one woman, corresponding to a 17 % ratio. The deadline for implementation was set at 30 June 2017. This objective was implemented on 9 March 2017 when Dr. Anna C. Eichhorn was elected to the Supervisory Board of BRAIN AG. The retention of this goal was confirmed at the meeting on 28 September 2017 for the period until 30 June 2022. As a consequence of the court replacement of Supervisory Board members after the end of the financial year at the company's request in accordance with Section 104 (2) Clause 1 AktG, the proportion of women on the Supervisory Board increased to 33% with the appointment of Prof. Dr. Treffenfeldt, and the company plans to propose Dr. Eichhorn and Prof. Dr. Treffenfeldt for election or re-election at the Annual General Meeting on 10 March 2021. Also on 28 September 2017, the Supervisory Board passed a resolution to leave the ratio of women for the Management Board of BRAIN AG unchanged at 0% until 30 June 2022.

The Management Board is composed exclusively of men at present. For the first management level below the Management Board, the Management Board of BRAIN AG passed a resolution to set a 14% target for participation by women and determined that this goal should be implemented by 30 June 2017. This target was reached with a level of 14% on 30 June 2017.

As a consequence, the Management Board of BRAIN AG has set the target for the proportion of women at the first management level below the Management Board at 14%, with a deadline for implementation by the end of 30 September 2020. With the end of the implementation period mentioned above, the proportion of women at the first management level was reached.

Considering the management matrix structure established within the company, especially including command and reporting lines between Management Board and subordinated levels, as well as taking into consideration the company's size, only one management level exists below the Management Board in the meaning of Section 76 (4) AktG.

### **Shareholders and AGM**

The shareholders exercise their co-management and controlling rights at the Shareholders' General Meeting (the Annual General Meeting/AGM), which is chaired by the Supervisory Board Chair pursuant to the company's bylaws. Each share in BRAIN AG grants one vote. Shareholders can exercise their voting rights at the AGM itself, or have it exercised by a proxy of their choosing or by a company proxy. The Management Board is authorized to ensure that shareholders that do not attend the AGM can also participate in the AGM

and exercise their rights wholly or partly by way of electronic communications (online participation), or to issue their votes without participating in the meeting by way of written or electronic communications (postal option). The Management Board is also authorized to set the specific arrangements relating to the scope and procedure for online participation and postal voting. These are to be announced in the convening document for the AGM. All shareholders are entitled to participate in the AGM, to speak on the respective agenda items, and to request information about the company's affairs, where such information is required in order to arrive at an objective assessment of an agenda item.

The fourth public Ordinary AGM of BRAIN AG was held on 5 March 2020 in Zwingenberg. The invitation for the AGM was published in good time in the German Federal Gazette (Bundesanzeiger) pursuant to statutory regulations, including the agenda with the proposed resolutions of the management and of the Supervisory Board as well as the terms for participating in the AGM and the exercising of voting rights, among other matters. All reports and documents required by law were available on the website of BRAIN AG from the date when the AGM was convened. Directly following the AGM, BRAIN AG published the attendance and voting results on its website. Five out of six items on the agenda were submitted to the vote at the AGM. Four of the five proposed resolutions were accepted given an attendance of the share capital of BRAIN AG of 70.03%.

## **Financial accounting and auditing**

The unaudited quarterly financial statements as of 31 December 2019 (3M) and 30 June 2020 (9M) as well as the unaudited half-year financial report (6M) as of 31 March 2020 and the consolidated financial statements for the financial year ending 30 September 2020 were prepared in accordance with Section 315e (1) of the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS). The separate financial statements of BRAIN AG for the 2019/20 financial year were prepared in accordance with the regulations of the German Commercial Code (HGB), and the German Stock Corporation Act (AktG).

Zwingenberg, December 2020

Management Board and Supervisory Board





04

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# Group Management report

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# Basis of the Group

- BRAIN identifies hitherto untapped bioactive natural compounds, enzymes and high-performance microorganisms derived from complex biological systems in order to transform them into industrially usable applications.
- As an industrial biotechnology company, BRAIN has set itself the target of outperforming the growth potential offered by the bioeconomy sector.

## Group business model

BRAIN AG is a growth company in the industrial biotechnology area with a focus on business activities in the areas of nutrition, health and the environment. A science-based product business forms the core of our strategic orientation.

The BioScience segment consists of our R&D programs for contract research conducted in partnership with industrial companies. These programs aim to make previously untapped high-performance enzymes, microbial producer organisms as well as natural substances deriving from complex biological systems usable in an industrial context. The BioScience segment is also home to our incubator. Here, deploying both our own research funds and working together with partners, we aim for breakthroughs in biotechnologically produced solutions that address a number of societal issues: nature-based food, health, and environmentally compatible production methods. The BRAIN AG website presents a full overview of these topics. The BioIndustrial segment comprises mainly the industrially scalable business with a focus on the production of enzymes, microorganisms and bioactive natural substances. By investing in its own fermentation capacities, the BRAIN Group has expanded its value chain in this segment.

The targets in terms of a "bioeconomy" are to replace chemical-industrial processes with innovative, resource-conserving bio-based processes, as well as to establish new processes and products. The BRAIN Group utilizes biotechnological processes in its production.

## Management system

BRAIN's financial control parameters include revenue and adjusted EBITDA<sup>1</sup>. In the company's view, revenue appropriately reflects the Group's overall financial performance during the respective reporting period. Adjusted EBITDA appears to better reflect the Group's sustainable earnings than EBITDA, as it excludes exceptional items. Adjusted EBITDA is calculated by eliminating expenses from the share-based payments of BRAIN AG, employee participation programs at one subsidiary, and acquisition and integration costs from the BRAIN Group's expansion. Expenses from the realignment of the Management Board as well as one-time employee benefits to mitigate the additional burden from the coronavirus crisis were also eliminated in the financial year under review.

As key non-financial indicators, the company refers to milestones achieved in the context of cooperation agreements and option exercises. The number of milestones reached and exclusive options exercised serves as an important measure of the technological targets achieved in the strategic industrial partnerships, and consequently of BRAIN's technology expertise. The management metrics underlying the planning and steering are calculated based on International Financial Reporting Standards (IFRS).

## Research and development

Biotechnology research and the development of biotechnology processes and products represent an important expertise, and form the foundation of Group business activities. As early as 1999, BRAIN applied proprietary metagenome technologies in order to develop production organisms, enzyme products and genetic libraries. BRAIN's portfolio today consists of various patented special technologies, as reflected in the patent portfolio. These include the "Human Taste Cell Technology (HTC)" developed and patented by BRAIN. Such technology is based on human tongue cells, and is utilized in order to develop natural substances for taste modulation, or as taste molecules. Deployed as new sweetness enhancers or salt substitutes, they can reduce sugar or salt content in foods, for example. BRAIN is also active in the areas of wound healing as well as green and urban mining. Here, BRAIN, together with its partners, is about to reach important milestones, such as entering the clinical trial phase with the wound healing enzyme Aurase.

BRAIN's proprietary BioArchive includes around 53,000 comprehensively characterized microorganisms, isolated natural substances, chassis microorganism strains to develop production organisms, as well as genetic libraries encompassing new enzymes and metabolic pathways. The assets of subsidiary AnalytiCon Discovery GmbH, Potsdam, include a unique collection of pure natural materials and semisynthetic substances based on natural material building blocks. These collections aggregated within the BioArchive are being expanded in ongoing projects, enabling the identification of hitherto uncharacterized enzymes and natural substances, and new access to biodiversity that has not proved cultivatable to date.

Expenses for research and development amounted to € 5.8 million in the 2019/20 financial year, compared with € 7.8 million in the 2018/19 financial year. This corresponds to 15% of revenue in the 2019/20 financial year, after 20% in the previous financial year. Investments in research and development in the 2019/20 financial year mainly include expenses to develop various products (such as new sweeteners and processes to extract biological metal from waste and byproduct flows) at the sites in Zwingenberg and Potsdam. Research and development expenses include € 1.3 million of third-party services (previous year: € 2.4 million).

The Group currently employs 180 people in research and development functions (previous year: 174).

<sup>1</sup> Earnings before interest, tax, depreciation and amortization.

# Economic and business report

- The BRAIN Group's revenue amounted to € 38.2 million in the 2019/20 financial year, representing year-on-year organic growth of 3.4%.
- A higher level of project business led to a pleasing revenue growth of 8.5% in the BioScience segment, from € 12.2 million to € 13.2 million.

## 1 Macroeconomic and sector-related conditions

In a difficult global economic environment, where risks to global economic growth<sup>2</sup> intensified due to the challenges posed by the spread of the coronavirus pandemic, overall conditions for industrial biotechnology continued to be positive in the 2019/20 financial year, which was partly reflected in a higher level of financing volumes for biotech companies in Germany in 2020<sup>3</sup>.

Markets for biotechnology products and processes frequently differ in their trends from those for conventional products within the same application areas. Such markets often exhibit a faster growth dynamic<sup>4</sup>. Further, the trend towards more sustainable and healthier lifestyles has also been increasingly evident in recent years, which is highly relevant for BRAIN's developments.

While R&D expenditure in the therapies and diagnostics sector is high in absolute terms, industrial biotechnology also recorded growth<sup>5</sup>. Along with substituting petrochemical-based products, sector research and development activities focus on biological solutions for sugar and salt substitutes.

## 2 Business progress

Due to IAS 8 adjustments, some of the amounts presented differ from the amounts in the consolidated financial statements for the 2018/19 financial year. The section "IAS 8 corrections" in the notes to the consolidated financial statements provides further information on this topic.

TABELLE 04.1 EXTRACT FROM THE STATEMENT OF COMPREHENSIVE INCOME

| € thousand                             | 2019/20       | 2018/19*      |
|--|---------------|---------------|
| <b>Revenue</b>                         | <b>38,225</b> | <b>38,560</b> |
| Research and development grant revenue | 839           | 1,486         |
| Changes in inventories                 | -378          | -54           |
| Other income                           | 552           | 1,238         |
| <b>Total operating performance</b>     | <b>39,238</b> | <b>41,231</b> |
| <b>EBITDA</b>                          | <b>-3,876</b> | <b>-2,496</b> |
| <b>Adjusted EBITDA</b>                 | <b>-2,018</b> | <b>-2,167</b> |
| <b>EBIT</b>                            | <b>-8,229</b> | <b>-7,198</b> |
| Net financial result                   | -1,715        | -3,912        |
| Pretax loss for the reporting period   | -9,944        | -11,111       |
| Net loss for the reporting period      | -9,017        | -11,119       |
| Earnings per share (in €)              | -0,52         | -0,61         |

\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

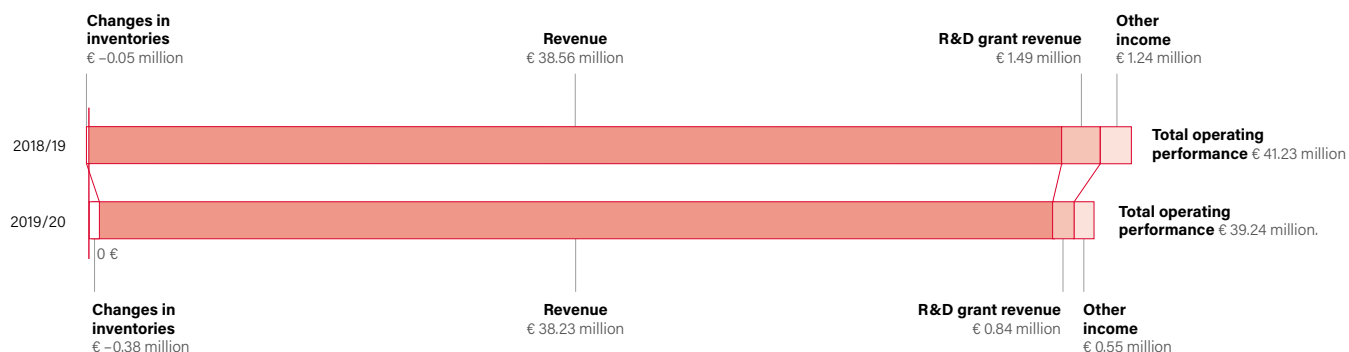
<sup>2</sup> See: International Monetary Fund (IMF): World Economic Outlook, June 2020.

<sup>3</sup> Cf. survey by BIO Deutschland: Jahrbuch 2020/21.

<sup>4</sup> According to a survey conducted by publishing and specialist information provider BIOCOM, industrial biotechnology companies participating in the survey reported sales growth of almost 10% in 2019.

<sup>5</sup> According to the aforementioned BIOCOM survey, R&D expenditure in the new therapies and diagnostics sector grew by 70%, while spending on industrial biotechnology increased by 2.7%.

FIGURE 04.1 COMPOSITION OF TOTAL OPERATING PERFORMANCE



The revenue of the BRAIN Group decreased to € 38.2 million in the 2019/20 financial year. Compared with the previous year (€ 38.6 million), this represents a reduction of 0.9%. In organic terms (i.e. excluding Monteil Cosmetics International GmbH, Oestrich-Winkel, Germany, in the previous year), revenue grew by 3.4%. This growth reflects both a higher level of project business in the BioScience segment, which was up by 8.5%, as well as organic growth in BioIndustrial segment’s product business.

At € 0.8 million, revenues from research and development grants were approximately € 0.6 million lower than in the previous year (€ 1.5 million), which is attributable to the scheduled expiry of a funding alliance as of the end of the last financial year.

Changes in inventories (€ -0.4 million) were lower than in the previous year (€ -0.1 million). In the BioScience segment, the change in inventories decreased from € 39 thousand in the previous year to € -0.2 million. The change in inventories in the BioIndustrial segment reduced from € -0.1 million in the previous year to € -0.2 million. The decrease in inventories in both segments is attributable to active measures undertaken to reduce inventories as well as to accrual effects. Other income reduced by € 0.7 million compared to the previous year.

At € 39.2 million, the total operating performance deriving from the aforementioned developments was 4.8% down on the previous year (€ 41.2 million). Due to the aforementioned effects, it decreased at a faster rate than revenue.

The focus of revenue was again on Germany (c. 23%, previous year: c. 23% of total revenue), France (c. 13%, previous year: c. 13%), the USA (c. 18%, previous year: c. 19%) and the UK (c. 12%, previous year: c. 11%). Revenue in Germany decreased to € 8.9 million (previous year € 9.1 million). International revenue remained constant compared to the previous year (€ 29.3 million).

In the 2019/20 financial year, a total of 13 milestones were achieved and exclusivity options exercised (previous year: seven). The milestones reached and exclusivity options exercised relate to different cooperation partners.

### 3 Results of operations

In the past financial year, adjusted EBITDA reported a slight improvement from € –2.2 million in the previous year to € –2.0 million. This mainly reflected the improved cost of materials ratio, and cost savings in other expenses. On the other hand, personnel costs increased.

As in the previous year, EBITDA was influenced by various non-operating effects, for which adjustments have been made. These include acquisition and integration costs, expenses for share-based compensation schemes and an employee share schemes, costs in connection with the realignment of the Management Board, and a one-time support payment to employees to mitigate the additional burden from the coronavirus crisis.

The following table shows the reconciliation of reported EBITDA to adjusted EBITDA, excluding the effects and expenses described above:

TABLE 04.2 RECONCILIATION OF REPORTED EBITDA TO ADJUSTED EBITDA

| € thousand  | 2019/20       | 2018/19*      |
|---|---------------|---------------|
| <b>EBITDA, including:</b>   | <b>-3,876</b> | <b>-2,497</b> |
| Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH, Potsdam               | 0             | -35           |
| Personnel expenses from share-based payment components  | -629          | -266          |
| Other operating expenses related to M&A transactions and the integration of acquired businesses       | -222          | -27           |
| Personnel expenses in connection with the realignment of the Management Board, as well as coronavirus | -692          | 0             |
| One-off support payment to employees to mitigate additional burdens caused by the coronavirus crisis  | -138          | 0             |
| Other expenses in connection with the realignment of the Management Board                             | -177          | 0             |
| <b>Adjusted EBITDA</b>  | <b>-2,018</b> | <b>-2,167</b> |

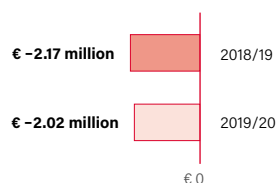
\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

The adjustments mainly relate to personnel expenses and other expenses.

In line with the lower revenue, the cost of materials also decreased, by 4.3% from €17.4 million to €16.6 million. The cost of materials ratio in relation to revenue reduced from 45.1% in the previous year to 43.6%. The lower cost of materials ratio was achieved particularly by focusing on products with higher margins in the BioIndustrial segment, as well as a higher share of revenue generated by the BioScience segment, which generally has a lower cost of materials ratio. Third-party services in the BRAIN Group fell by 17.7% to € 2.5 million, as a funding alliance expired at the end of the last financial year. Third-party services were purchased mainly from universities, companies with production expertise, and other technology firms.

Compared to the previous year, personnel expenses increased by 8.5% from € 17.6 million to € 19.1 million. This was mainly due higher wages and salaries, the realignment of the Management Board, as well as the share-based compensation of the BRAIN Group. The personnel expense ratio increased from 45.7% to 50.1%.

FIGURE 04.2 ADJUSTED EBITDA



At €7.3 million (previous year: €8.7 million), other expenses were below the previous year's level due to operational improvements, especially in advertising and travel expenses.

As a consequence of the aforementioned effects, unadjusted EBITDA decreased from € -2.5 million to € -3.9 million.

EBIT also reduced from € -7.2 million to € -8.2 million year-on-year, despite a lower level of depreciation, amortization and impairment charges.

The net financial result improved from € -3.9 million to € -1.7 million thanks to positive subsequent measurement effects from the subsequent measurement of financial liabilities in connection with put option rights relating to the Biocatalysts Group. In addition, the subsequent measurement of liabilities in connection with the acquisition of shares in WeissBioTech GmbH, Ascheberg, resulted in financial income. This was offset by a negative result from the equity accounted interest in SolasCure Ltd., Cardiff/UK.

As a consequence, the pretax result improved from € -11.1 million to € -9.9 million.

Earnings after taxes amounted to € -9.0 million (previous year: € -11.1 million. Of this amount, € -9.7 million is attributable to the shareholders of BRAIN AG.

Overall, the revenue and adjusted EBITDA trends were not fully in line with our forecast (see also the detailed forecast report in this Group management report).

The operating segments report the following results:

TABLE 04.3 SEGMENT SHARE OF REVENUE

|               | 2019/20 | 2018/19 |
|---------------|---------|---------|
| BioScience    | 35 %    | 32 %    |
| BioIndustrial | 65 %    | 68 %    |

### **BioScience segment**

The BioScience segment mainly includes research and development business with industrial partners, and the company's own research and development.



FIGURE 04.3 SEGMENT SHARE OF REVENUE

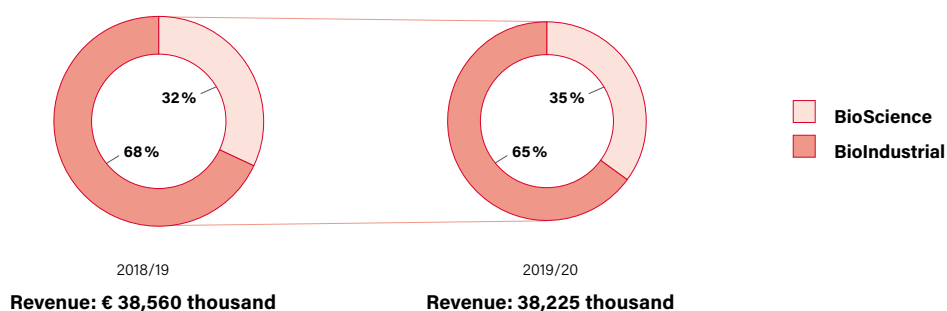


TABLE 04.4 BIOSCIENCE SEGMENT

| € thousand                                | 2019/20       | 2018/19*      |
|---|---------------|---------------|
| <b>Revenue</b>                            | <b>13,230</b> | <b>12,192</b> |
| Research and development grant revenue    | 687           | 1,201         |
| Changes in inventories                    | -222          | 39            |
| Other income                              | 267           | 537           |
| <b>Total operating performance</b>        | <b>13,962</b> | <b>13,969</b> |
| Cost of materials                         | -3,521        | -4,205        |
| Personnel expenses                        | -13,011       | -11,386       |
| Other expenses                            | -3,650        | -3,574        |
| <b>EBITDA</b>                             | <b>-6,219</b> | <b>-5,195</b> |
| <b>Adjusted EBITDA</b>                    | <b>-4,541</b> | <b>-4,932</b> |
| Depreciation, amortization and impairment | -1,344        | -1,187        |
| <b>EBIT</b>                               | <b>-7,564</b> | <b>-6,356</b> |

\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

In the BioScience segment, revenue reported an increase of 8.5% from € 12.2 million to € 13.2 million, reflecting a higher level of project business. Revenue from research and development grants reduced from € 1.2 million in the previous year to € 0.7 million due to the scheduled expiry of a funding alliance. As a consequence, total operating performance remained the same as in the previous year at € 14.0 million. Further cooperation partners were acquired and existing relationships with cooperation partners were further expanded in the 2019/20 financial year.

Adjusted EBITDA for the segment increased to € -4.5 million compared with € -4.9 million in the previous year.

### BioIndustrial segment

The BioIndustrial segment consists mainly of the Group's industrially scaled product business.

TABLE 04.5 BIOINDUSTRIAL SEGMENT

| € thousand                                | 2019/20       | 2018/19       |
|---|---------------|---------------|
| <b>Revenue</b>                            | <b>25,081</b> | <b>26,411</b> |
| Research and development grant revenue    | 152           | 285           |
| Changes in inventories                    | -157          | -93           |
| Other income                              | 294           | 757           |
| <b>Total operating performance</b>        | <b>25,371</b> | <b>27,360</b> |
| Cost of materials                         | -13,184       | -13,220       |
| Personnel expenses                        | -6,136        | -6,256        |
| Other expenses                            | -3,702        | -5,146        |
| <b>EBITDA</b>                             | <b>2,348</b>  | <b>2,739</b>  |
| <b>Adjusted EBITDA</b>                    | <b>2,528</b>  | <b>2,805</b>  |
| Depreciation, amortization and impairment | -3,008        | -3,515        |
| <b>EBIT</b>                               | <b>-660</b>   | <b>-776</b>   |

Revenue in the BioIndustrial segment decreased from € 26.4 million to € 25.1 million. On an organic basis, revenue grew by 1.0%.

The segment's total operating performance also reported a reduction of 7.3%, in line with revenue growth, from € 27.4 million in the previous year to € 25.4 million.

Segment adjusted EBITDA decreased from € 2.8 million to € 2.5 million. This is mainly due to the lower total operating performance.

## 4 Net assets and financial position

TABLE 04.6 EXTRACT FROM THE BALANCE SHEET

| € thousand                     | 30.09.2020    | 30.09.2019*   |
|--------------------------------|---------------|---------------|
| <b>Non-current assets</b>      |               |               |
| Intangible assets              | 13,271        | 15,794        |
| Property, plant, and equipment | 24,470        | 17,144        |
| Other non-current assets       | 1,326         | 2,228         |
|                                | <b>39,067</b> | <b>35,167</b> |
| <b>Current assets</b>          |               |               |
| Other current assets           | 13,808        | 15,583        |
| Other financial assets         | 332           | 213           |
| Cash and cash equivalents      | 18,943        | 15,160        |
|                                | <b>33,083</b> | <b>30,957</b> |
| <b>ASSETS</b>                  | <b>72,150</b> | <b>66,123</b> |

| € thousand                        | 30.09.2020    | 30.09.2019*   |
|-----------------------------------|---------------|---------------|
| <b>Equity</b>                     | <b>26,143</b> | <b>20,172</b> |
| <b>Non-current liabilities</b>    |               |               |
| Non-current financial liabilities | 27,320        | 23,398        |
| Other non-current liabilities     | 6,330         | 7,680         |
|                                   | <b>33,650</b> | <b>31,078</b> |
| <b>Current liabilities</b>        |               |               |
| Current financial liabilities     | 3,277         | 3,603         |
| Other current liabilities         | 9,079         | 11,270        |
|                                   | <b>12,357</b> | <b>14,873</b> |
| <b>EQUITY AND LIABILITIES</b>     | <b>72,150</b> | <b>66,123</b> |

\*Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

The changes in the net assets and capital structure in the 2019/20 financial year are mainly due to a capital increase from authorized capital in June 2020 and the negative net result for the year.

Non-current assets increased by € 3.9 million as a consequence of the first-time application of IFRS 16, and the investment in new production capacities in the UK for the production of enzymes. This is offset by the amortization of hidden reserves from the acquisition of fully consolidated companies and impairment of other intangible assets (production organisms) WeissBioTech GmbH, Ascheberg.

Current assets increased from € 31.0 million to € 33.1 million. This was due, in particular, to the rise in cash and cash equivalents from € 15.2 million to € 18.9 million.

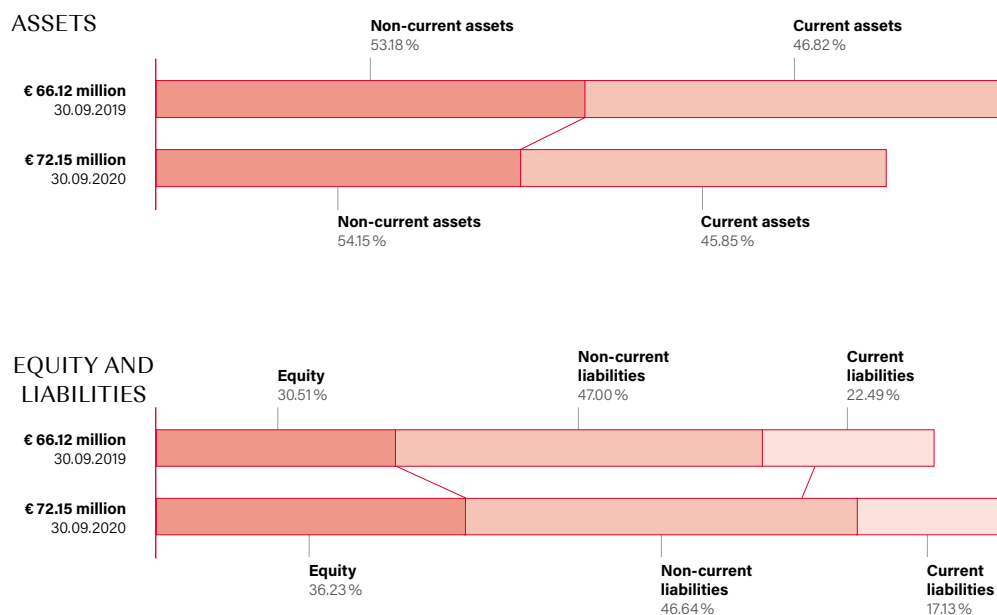
Equity increased from € 20.2 million to € 26.1 million. This rise of € 6.0 million is the net effect of the capital increase from authorized capital of € 14.6 million and the negative total comprehensive income. The previous year's figure was restated due to revaluations of pension commitments and the revaluation of a put option. Further information on this topic is presented in the notes to the consolidated financial statements. The equity ratio stood at 36.2% as of the end of the financial year (previous year 30.5%).

As at the 30 September 2020 balance sheet date, the company reports authorized capital of € 7,222,313 and conditional capital of € 5,090,328 (conditional capital to satisfy warrant and conversion rights when issuing bonds with warrants and/or convertible bonds), as well as an amount of € 1,805,578 (conditional capital to satisfy option rights from issuing stock options).

Non-current liabilities increased by € 2.6 million to € 33.7 million as at 30 September 2020, mainly due to the higher level of financial liabilities.

Current liabilities decreased from € 14.9 million to € 12.4 million, with the change of € 1.7 million being attributable mainly to lower deferred income due to pro rata recognition of revenue from the license agreement with SolasCure Ltd., Cardiff/UK, and revenue recognition from advance payments for R&D projects, as well as a lower level of trade payables.

FIGURE 04.4 BALANCE SHEET STRUCTURE



Financial management at BRAIN mainly entails securing the necessary liquidity to finance the attainment of the company’s objectives and to meet payment obligations at all times. Such financial management includes deploying various financing instruments such as loans and leasing.

The financial liabilities are predominantly denominated in euros and pounds sterling. In addition to silent partnerships, the interest-bearing financial liabilities mainly consist of loans from financial institutions with a fixed nominal interest rate of between 1.15 % and 6.10 %, as well as liabilities for the potential acquisition of company shares from the exercise of put options. Of the interest-bearing loans, € 1.3 million have a remaining term of up to one year, € 2.7 million a remaining term of more than one year and up to five years, and € 1.5 million a remaining term of more than five years.

The debt-to-equity ratio decreased from 69.5% in the previous year to 63.8% as at 30 September 2020 in the context of the aforementioned parameters. Total assets rose from € 66.1 million as at 30 September 2019 to € 72.2 million as at 30 September 2020.

## Investments

The focus of investments in the current financial year was on the expansion of production capacities in the UK. Accordingly, capital expenditure concentrated on property, plant and equipment at € 2.8 million, compared with € 6.6 million in the previous year.

## Liquidity

TABLE 04.7 EXTRACT FROM THE CASH FLOW STATEMENT

| € thousand                              | 2019/20 | 2018/19* |
|---|---------|----------|
| Gross cash flow                         | -6,056  | -6,257   |
| Cash flow from operating activities     | -4,767  | -3,380   |
| Cash flow from investing activities     | -4,469  | -6,743   |
| Cash flow from financing activities     | 13,093  | -276     |
| Net change in cash and cash equivalents | 3,857   | -10,400  |

\*Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

The gross cash flow of the BRAIN Group amounted to € -6.1 million in the 2019/2020 financial year compared with € -6.3 million in the previous year. Cash flow from operating activities decreased from € -3.4 million to € -4.8 million in the financial year under review.

Cash flow from investing activities amounted to € -4.5 million in the financial year under review compared with € -6.7 million in the previous year, and mainly reflects additions to property, plant and equipment, and a capital increase at an equity-accounted company. The additions to property, plant and equipment relate mainly to investments in a production site for the manufacture of specialty enzymes in the UK. Further information on this topic is presented in the "Investments" section of this management report.

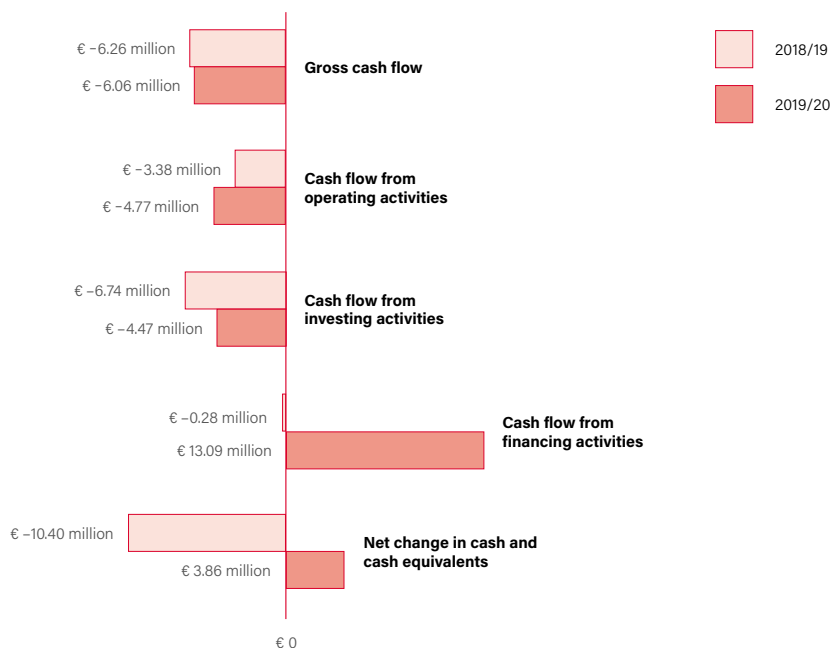
Cash flow from financing activities amounted to € 13.1 million, and derives from a capital increase from authorized capital in the amount of € 14.6 million, as well as the net repayment of financial liabilities.

The individual cash flows led to an increase in cash and cash equivalents of € 3.9 million compared with € -10.4 million in the previous year.

Cash and cash equivalents of € 18.9 million as at 30 September 2020 were offset by current financial liabilities of € 3.3 million and non-current financial liabilities of € 27.3 million, with the majority of non-current financial liabilities relating to potential payments from the exercise of put options. Undrawn credit lines of € 7.0 million also existed.

In the Management Board's assessment, no restrictions exist that can limit the availability of cash and/or capital.

FIGURE 04.5 PRESENTATION OF THE CASH FLOW STATEMENT



## 5 Employees

The number of employees reports the following changes:

TABLE 04.8 NUMBER OF EMPLOYEES

|                                  | 2019/20    | 2018/19    |
|----------------------------------|------------|------------|
| <b>Total employees, of which</b> | <b>279</b> | <b>281</b> |
| Salaried employees               | 253        | 256        |
| Industrial employees             | 25         | 25         |

The BRAIN Group also employs grant recipients (6, previous year: 4), temporary help staff (14, previous year: 12), trainees (7, previous year 7).

## 6 Overall statement on business progress

In the Management Board's view, BRAIN achieved some important successes in addressing markets in the past financial year, as commented upon below. In terms of research, BRAIN advanced some of its own development projects in the financial year under review. In the wound care area, we plan to enter the clinical trial phase in the course of the next financial year. The joint project with Suntory, Natural Beverages 1, is about to be launched on the market. In the natural sugar substitutes area, we moved from the research phase into commercial development. The economic environment was characterized by uncertainty overall, including as a consequence of the coronavirus pandemic, and BRAIN also experienced declining demand in product areas such as enzymes for the production of bioethanol and for wine processing. Overall, however, our product business was also above the previous year's level in organic terms. The acquisition of a 24.7% minority interest in WeissBioTech GmbH, Ascheberg, Germany, further strengthened our operational capability in the enzymes business. Our position as sole shareholder facilitates greater latitude in shaping the enzyme business. In contract research, with its longer-term contracts, we look back on positive business performance thanks to the revenue growth and new contracts concluded.

As far as the Group's financial position and performance is concerned, the Management Board is of the opinion that the overall picture is positive, as the Group achieved organic revenue growth and an improved, albeit still negative, adjusted EBITDA, despite the generally weak economic environment.

We continued to push ahead with measures to strengthen our business activities with the aim of achieving sustainable and profitable revenue growth. This includes addressing cost as well as revenue synergies within the Group, a streamlined corporate organization with a clear assignment of responsibilities, a realignment of the new business development area, a focused new business development pipeline, overall cost saving initiatives and a concentration on the product business.

Above and beyond this, for the Management Board the continued high level of investments in research and development in relation to revenue represents an indicator and basis for BRAIN's future potentials. The Group holds a position of cash and cash equivalents of € 18.9 million as at 30 September 2020, and reports a 36.2% equity ratio. A capital increase in June 2020 led to a net cash inflow of € 14.6 million and strengthened our financial flexibility. In the Management Board's opinion, this signifies that the prerequisites to participate in the potential offered by growing bioeconomy markets remain in place.

Overall, and on the basis of the developments outlined above, the Management Board of BRAIN AG continues to assess the course of business and the Group's net assets and financial positions as positive as of the reporting date.

# Compensation report

The compensation report has been prepared according to the statutory regulations of the German Commercial Code (HGB), and taking into consideration the recommendations listed in the German Corporate Governance Code (DCGK). The following sections present the basic elements of the compensation scheme for the Management and Supervisory board members, explain the structure of the compensation and salaries of individual Management and Supervisory board members, and report the level of compensation paid to Management and Supervisory board members.

## 1 Management Board compensation

### Compensation scheme

Management Board compensation is aimed at providing incentives for results-oriented and sustainable corporate management. Further details are presented in the description of stock options for members of the Management Board, which can be found in the notes to the consolidated financial statements. The Management Board members' overall compensation consequently includes various elements, and consists currently of fixed basic compensation, a performance-based bonus, long-term incentives through an equity option program as well as individually agreed pension commitments, expenses of a provident nature, insurance contributions, and other ancillary benefits.

When setting overall compensation and the individual compensation elements, the Supervisory Board has taken into consideration the company's financial position and business prospects, as well as its compensation structure. For the individual Management Board members, the Supervisory Board has differentiated according to function, areas of responsibility, qualification and personal performance. Where such data and information was available, information about compensation at other companies within the same sector, or competing with the company, was taken into consideration as a further criterion.

The agreements relating to compensation are included in the Management Board members' service contracts. The contractual duration corresponds in each case to the period of office for which the respective Management Board members have been appointed. The service contracts are fixed for this period and cannot be terminated on an ordinary basis.

The basic structure of Management Board compensation and the subsequent related remarks are also valid for former Management Board members.

### Basic compensation

Each Management Board member receives a basic fixed salary that is agreed as fixed cash compensation drawn in relation to the financial year, and paid out in twelve equal monthly instalments.

Basic compensation for the Management Board Chair amounts to 63% of target compensation taking into consideration a capped performance-related bonus for 100% target attainment, and for the remaining Management Board members 76% of target compensation taking into consideration a capped performance-related bonus for 100% target attainment.



### **Performance-based bonus**

The performance-based bonus is variable cash compensation relating to a specific financial year that is granted if the Management Board member reaches predetermined targets in the respective financial year (performance targets include parameters including both qualitative and quantitative targets such as the adjusted IFRS EBITDA). The annual bonus level is contractually arranged for each Management Board member for the duration of their service contract. If targets are missed by a significant margin, the Supervisory Board can reduce or completely refuse the bonus, as well as increase it to double its amount given significant out-performance of targets. Setting targets and assessing whether and to what extent targets were reached, and whether the bonus is to be reduced or increased, lies at the Supervisory Board's discretion. The Supervisory Board also assesses the Management Board member's personal performance in this context, with its decision including developments that are not attributable to the Management Board's performance, to thereby grant performance-based variable compensation to the Management Board members. Mr. Adriaan Moelker's variable compensation in his first year as a member of the Management Board consists of the minimum commitment of € 133 thousand and the commitment for the successful implementation of a capital increase in the amount of € 100 thousand.

If the fixed amount bonus is awarded, variable cash compensation for the Management Board Chair (CEO) reaches an amount equivalent to 59% of basic fixed compensation, and for the remaining Management Board members an amount equivalent to 24% of basic fixed compensation. If the Supervisory Board increases the fixed amount bonus at its discretion, variable cash compensation for the Management Board Chair (CEO) reaches a maximum of 59% of basic fixed compensation, and for the remaining Management Board members a maximum of 64% of basic fixed compensation.

### **Share-based compensation**

For information on share-based compensation, please refer to the relevant section in the notes to the consolidated financial statements.

#### **Pension commitments, expenses of a provident nature, and insurance contributions**

The Management Board members' service contracts include different regulations in relation to pensions and surviving dependents' benefits. A defined benefit plan exists for the Chief Executive Officer who left the company in the financial year under review. The benefit entitlements consist of an old-age pension from the age of 65 as well as surviving dependents' and invalidity benefits. To reinsure pension commitments, BRAIN AG pays contributions to an external occupational pension plan. In turn, the occupational pension plan has taken out pension liability insurance cover. The claims under the pension liability insurance have been assigned to the occupational pension plan beneficiaries. A pension scheme was arranged for the CEO who assumed office during the financial year under review as well as for the other Management Board members that includes an option to pay a contractually fixed amount into a pension fund or private pension scheme, or alternatively disburse this amount to the employee. In the case of death, the relatives of a deceased Management Board member receive a one-off payment equivalent to 50% of total compensation granted to the deceased Management Board member in the current financial year at the time of death, pursuant to related standard contractual regulations.

The company has concluded invalidity insurance policies for the Management Board members for the duration of their service contracts, with the related premiums being paid by the company. The company also grants Management Board members allowances for private health insurance and social security.

#### **Discontinued employment commitments**

Dr. Jürgen Eck stepped down from the Management Board on 31 December 2019. As part of the termination of the contractual relationship, it was agreed that the fixed compensation of €135 thousand would continue to be paid in accordance with the contractual agreement until the regular end of his contractual relationship on 30 June 2020. Moreover, when his Management Board contract was cancelled, a post-contractual competitive restraint for a six-month period was agreed, for compliance with which the company committed a monthly compensation payment equivalent in each case to 50% of the monthly fixed basic compensation paid. The total amount is € 68 thousand.

Mr. Ludger Roedder stepped down from the Management Board on 6 July 2020. The following was agreed as part of the termination of the contractual relationship: until the regular end of his contractual relationship on 31 December 2020, the fixed compensation of €138 thousand will continue to be paid in accordance with the contractual agreement. Furthermore, a compensation payment of €285 thousand was agreed upon termination of the contract. Finally, the company undertook to compensate Mr. Roedder for the consequences of any double taxation in the event of income he earns as a consequence of his work for the company, or awarded to him as a result of the termination. A provision of € 60 thousand was formed in this connection.

Mr. Manfred Bender stepped down from the Management Board on 30 September 2020. As part of the termination of the contractual relationship, it was agreed that a compensation payment of € 80 thousand would be made upon termination of the contract. This relates to the guaranteed payment of his bonus for the 2019/20 financial year.

#### **Future structure of the compensation scheme**

Apart from the stock option program, the compensation scheme as presented corresponds to many years' practice from the period before the IPO on 9 February 2016. In the 2017/18 financial year, the Supervisory Board established the stock option program in order to ensure long-term incentives for the Management Board members. At present, the Supervisory Board does not plan any changes to the structure of the compensation scheme.

#### **Management Board compensation level**

For the 2019/20 financial year, the Management Board was granted total compensation of €1,335 thousand, as calculated based on the German Commercial Code (HGB) Granted. The corresponding figure for the previous year stood at €1,041 thousand.

The compensation granted for the 2019/20 financial year based on commercial law regulations is summarized in the following overview.

TABLE 04.9 MANAGEMENT BOARD COMPENSATION BASED ON COMMERCIAL LAW REGULATIONS

| € thousand   | Dr. Jürgen Eck <sup>6</sup> | Adriaan Moelker <sup>7</sup> | Manfred Bender | Ludger Roedder <sup>8</sup> | Total        |
|--|-----------------------------|------------------------------|----------------|-----------------------------|--------------|
| <b>Basic compensation</b>  |                             |                              |                |                             |              |
| Fixed salary   | 68                          | 280 <sup>9</sup>             | 250            | 225 <sup>10</sup>           | 823          |
| <b>Performance-based components without long-term incentive effect</b> |                             |                              |                |                             |              |
| Profit share and bonus   | 0                           | 233                          | 0              | 0                           | 233          |
| <b>Performance-based components with long-term incentive effect</b>    |                             |                              |                |                             |              |
| Share-based compensation (ESOP)  | 0                           | 279                          | 0              | 0                           | 279          |
| <b>Total compensation</b>  | <b>68</b>                   | <b>792</b>                   | <b>250</b>     | <b>225</b>                  | <b>1,335</b> |

The present value of the overall obligation from pension commitments calculated pursuant to International Financial Reporting Standards (IFRS) amounted to € 5,557 thousand as of the reporting date (previous year: € 5,530 thousand), of which € 3,074 thousand for Dr. Jürgen Eck (previous year: € 2,904 thousand).

The pension value (present value of the overall obligation) according to the accounting regulations of the German Commercial Code (HGB) amounted to € 3,867 thousand (previous year: € 4,574 thousand), of which € 2,051 thousand for Dr. Jürgen Eck (previous year: € 2,142 thousand).

<sup>6</sup> Chief Executive Officer (CEO) until 31 December 2020

<sup>7</sup> Chief Executive Officer (CEO) since 1 February 2020

<sup>8</sup> Chief Business Officer (CBO) until 6 July 2020

<sup>9</sup> Fixed compensation of € 233 thousand plus payment of a pension contribution of € 47 thousand

<sup>10</sup> Fixed compensation of € 188 thousand plus payment of a pension contribution of € 38 thousand

### Reporting compensation in accordance with the recommendations of the German Corporate Governance Code (granted and received)

According to the German Corporate Governance Code in the version dated 7 February 2017, the total compensation of Management Board members consists of monetary compensation elements, pension awards, other awards, especially in the event of termination of activity, fringe benefits of all kinds and benefits by third parties which were promised or granted in the financial year under review with regard to Management Board work. By way of divergence from the regulations of the German Commercial Code (HGB), the annual service cost for pension commitments also forms part of overall compensation.

Section 4.2.5 (3) of the Code specifies which compensation components are to be disclosed for each Management Board member. The following overview shows which benefit contributions were granted to the members of the Management Board of BRAIN AG for 2019/20 and for the previous year.

TABLE 04.10 MANAGEMENT BOARD COMPENSATION

| Dr. Jürgen Eck, CEO until 31.12.2019      |            |            |            |            |                |                |
|---|------------|------------|------------|------------|----------------|----------------|
| € thousand                                | Received   |            | Granted    |            |                |                |
|   | 2019/20    | 2018/19    | 2019/20    | 2018/19    | 2019/20 (max.) | 2019/20 (min.) |
| Fixed compensation                        | 68         | 270        | 68         | 270        | 68             | 68             |
| Ancillary benefits                        | 0          | 0          | 0          | 0          | 0              | 0              |
| <b>Total</b>                              | <b>68</b>  | <b>270</b> | <b>68</b>  | <b>270</b> | <b>68</b>      | <b>68</b>      |
| Variable compensation (one-year)          | 0          | 78         | 0          | 80         | 120            | 0              |
| Share-based compensation (ESOP 2018/2019) | 0          | 0          | 0          | 217        | 0              | 0              |
| <b>Total</b>                              | <b>68</b>  | <b>348</b> | <b>68</b>  | <b>647</b> | <b>188</b>     | <b>68</b>      |
| Pension expense                           | 120        | 91         | 120        | 91         | 120            | 120            |
| <b>Total compensation</b>                 | <b>188</b> | <b>439</b> | <b>133</b> | <b>738</b> | <b>253</b>     | <b>133</b>     |

| Manfred Bender, CFO until 30.09.2020      |            |            |            |            |                |                |
|---|------------|------------|------------|------------|----------------|----------------|
| € thousand                                | Received   |            | Granted    |            |                |                |
|   | 2019/20    | 2018/19    | 2019/20    | 2018/19    | 2019/20 (max.) | 2019/20 (min.) |
| Fixed compensation                        | 250        | 208        | 250        | 208        | 250            | 250            |
| Ancillary benefits                        | 0          | 0          | 0          | 0          | 0              | 0              |
| <b>Total</b>                              | <b>250</b> | <b>208</b> | <b>250</b> | <b>208</b> | <b>250</b>     | <b>250</b>     |
| Variable compensation (one-year)          | 0          | 65         | 0          | 65         | 160            | 0              |
| Share-based compensation (ESOP 2018/2019) | 0          | 0          | 0          | 217        | 0              | 0              |
| <b>Total</b>                              | <b>250</b> | <b>273</b> | <b>250</b> | <b>489</b> | <b>410</b>     | <b>250</b>     |
| Pension expense                           | 50         | 42         | 50         | 42         | 50             | 50             |
| <b>Total compensation</b>                 | <b>300</b> | <b>315</b> | <b>300</b> | <b>531</b> | <b>460</b>     | <b>300</b>     |

| Ludger Roedder, CBO until 06.07.2020      |            |            |            |            |                |                |
|---|------------|------------|------------|------------|----------------|----------------|
| € thousand                                | Received   |            | Granted    |            |                |                |
|   | 2019/20    | 2018/19    | 2019/20    | 2018/19    | 2019/20 (max.) | 2019/20 (min.) |
| Fixed compensation                        | 225        | 188        | 225        | 188        | 225            | 225            |
| Ancillary benefits                        | 0          | 0          | 0          | 0          | 0              | 0              |
| <b>Total</b>                              | <b>225</b> | <b>188</b> | <b>225</b> | <b>188</b> | <b>225</b>     | <b>225</b>     |
| Variable compensation (one-year)          | 0          | 80         | 0          | 80         | 160            | 0              |
| Share-based compensation (ESOP 2018/2019) | 0          | 0          | 0          | 217        | 0              | 0              |
| <b>Total</b>                              | <b>225</b> | <b>268</b> | <b>225</b> | <b>485</b> | <b>385</b>     | <b>225</b>     |
| Pension expense                           | 0          | 0          | 0          | 0          | 0              | 0              |
| <b>Total compensation</b>                 | <b>225</b> | <b>268</b> | <b>225</b> | <b>485</b> | <b>385</b>     | <b>225</b>     |

| Adrian Moelker, CEO from 01.02.2020       |            |          |            |          |                |                |
|---|------------|----------|------------|----------|----------------|----------------|
| € thousand                                | Received   |          | Granted    |          |                |                |
|   | 2019/20    | 2018/19  | 2019/20    | 2018/19  | 2019/20 (max.) | 2019/20 (min.) |
| Fixed compensation                        | 280        | 0        | 280        | 0        | 280            | 280            |
| Ancillary benefits                        | 0          | 0        | 0          | 0        | 0              | 0              |
| <b>Total</b>                              | <b>280</b> | <b>0</b> | <b>280</b> | <b>0</b> | <b>280</b>     | <b>280</b>     |
| Variable compensation (one-year)          | 233        | 0        | 233        | 0        | 300            | 0              |
| Share-based compensation (ESOP 2019/2020) | 0          | 0        | 279        | 0        | 3,000          | 0              |
| <b>Total</b>                              | <b>513</b> | <b>0</b> | <b>792</b> | <b>0</b> | <b>3,580</b>   | <b>280</b>     |
| Pension expense                           | 0          | 0        | 0          | 0        | 0              | 0              |
| <b>Total compensation</b>                 | <b>513</b> | <b>0</b> | <b>792</b> | <b>0</b> | <b>3,580</b>   | <b>280</b>     |

## Supervisory Board compensation

Pursuant to the company's bylaws, the Supervisory Board members receive annual compensation of € 15,000. The Supervisory Board Chair receives twice this amount, and the Deputy Supervisory Board Chair receives one and a half times this amount. Committee chairs also receive further annual compensation of € 15,000. All Supervisory Board members receive a meeting fee of € 1,000 for each meeting of the Supervisory Board and Committees they attend.

The Supervisory Board members are included in the D&O (directors & officers) insurance cover (asset loss liability insurance) which the company has taken out for its directors, and whose premiums the company pays. Above and beyond this, the company has taken out asset loss liability insurance cover for securities issues ("IPO insurance") without deductibles for the Supervisory Board members as part of the IPO, whose costs the company bears.

The following table shows the cash compensation of the Supervisory Board for the 2019/20 financial year:

TABLE 04.11 CASH COMPENSATION OF THE SUPERVISORY BOARD

€ thousand

| Supervisory Board members         | Fixed compensation | Allowance for special functions | Meeting fees | Total compensation |
|-----------------------------------|--------------------|---------------------------------|--------------|--------------------|
| Dr. Georg Kellinghusen            | 30                 | 30                              | 21           | 81                 |
| Dr. Martin B. Jager <sup>11</sup> | 8                  | 5                               | 4            | 17                 |
| Dr. Anna C. Eichhorn              | 20                 | 10                              | 14           | 44                 |
| Dr. Michael Majerus               | 15                 | 15                              | 16           | 46                 |
| Prof. Dr. Bernhard Hauer          | 15                 | 0                               | 8            | 23                 |
| Dr. Rainer Marquart <sup>12</sup> | 6                  | 0                               | 4            | 10                 |
| <b>Total</b>                      | <b>94</b>          | <b>60</b>                       | <b>67</b>    | <b>220</b>         |

## Shares held by the Management and Supervisory boards

As at 30 September 2020, the Management Board members held 10,000 ordinary shares of BRAIN AG and the Supervisory Board members held 10,000 ordinary shares of BRAIN AG.

For the information about authorization of the Management Board to issue shares, please refer to the remarks about "Authorized Capital" and "Conditional Capital" in the section "Takeover-relevant information pursuant to Section 315a HGB".

<sup>11</sup> Until 31 January 2020.  
<sup>12</sup> Until 27 February 2020.

# Events after the reporting date

## **CFO Manfred Bender leaves the biotechnology company at the end of the financial year. Lukas Linnig becomes the new Chief Financial Officer**

On 7 May 2020, BRAIN AG announced that Chief Financial Officer Manfred Bender would leave the company at his own request as of 30 September 2020. Mr. Bender wished to accept a new role and consequently requested that the Supervisory Board terminate his contract early. The Supervisory Board complied with this request.

The new Chief Financial Officer is the previous Head of Finance, Controlling and Legal, Mr. Lukas Linnig. Mr. Linnig has worked for the Zwingenberg-based company since April 2017, and previously supported it as a consultant during its IPO.

## **New members of the Supervisory Board**

On 14 October 2020, Prof. Dr.-Ing. Wiltrud Treffenfeldt and Mr. Stephen Catling were appointed by the Darmstadt District Court as new members of the Supervisory Board with immediate effect until the next Annual General Meeting on 10 March 2021. They thereby complete the Supervisory Board to its full number of six members.

## **Impact of the coronavirus pandemic**

After the end of the reporting period, BRAIN continued to contain any adverse impact on business performance due to the coronavirus pandemic, focusing its measures primarily on employee safety, supply chain stability, the timely fulfillment of customer contracts, and the maintenance of normal business operations to the greatest extent possible.

The subsidiary SolasCure Ltd., Cardiff/UK, was affected by the pandemic insofar as clinic closures led to delays in the scheduling of clinical trials. A reduction in sales revenues from enzymes for starch processing (bioethanol) and wine yeast also exerted a negative effect.

Travel restrictions and social distancing are making it difficult for BRAIN AG to visit clients in order to acquire new projects. Our business development team is endeavoring to pursue new approaches in order to minimize the impact on customer acquisition. However, an effect in the next financial year, as well as beyond, cannot be ruled out.

# Outlook

Given the high-growth dynamic of markets for biotechnological products and processes, BRAIN assumes that positive conditions for the future will prevail overall. As a technology company active in the industrial biotechnology sector, BRAIN regards itself as in a position to contribute significant added value for industrial partners, as well as in the context of its own research and development.

The original expectation of a positive business trend during the financial year under review, including a significant increase in revenue and a continued negative, albeit better, adjusted EBITDA, was achieved in full in the past financial year. Revenue decreased by 0.9%. On an organic basis, however, revenue was up by 3.4%. Adjusted EBITDA improved by € 0.2 million year-on-year to € -2.0 million.

For the 2020/21 financial year, the Management Board anticipates a business trend reflecting revenue growth and a further improved, albeit continued negative, adjusted EBITDA result at Group level. An improved, positive EBITDA result is expected for the BioIndustrial segment, and a continued negative adjusted EBITDA result for the BioScience segment. In the BioIndustrial segment, the company is confident that it will return to its revenue growth path with higher, positive adjusted EBITDA in connection with the expansion of the product business. In the BioScience segment, a maximum of single-digit percentage revenue growth is expected thanks to the repositioning of the new business development pipeline and the cooperation business, as described above.

The milestones and option drawings expected in the previous year were achieved (13 in the financial year under review; seven in the previous year). An unchanged number of milestones is anticipated for the following year. Research and development expenses in the financial year under review were below the previous year's level. A similarly high level of research and development expenses are expected for the coming financial year.

As in the previous year, these forecasts are based on the assumption that macroeconomic and sector-related conditions for industrial biotechnology in 2020/21 develop further as described in the section entitled "Macroeconomic and sector-related conditions", that potential projects are not discontinued on an unscheduled basis, and that new cooperation partners can be acquired for new projects. This forecast is also based on the assumption that the spread of the coronavirus pandemic will not have a significant impact on BRAIN's planned revenue growth and associated earnings improvements, and that interest in sustainable products will continue to prevail among the general public.

# Report on risks and opportunities

- The aim is to sustainably grow the company's value through tapping opportunities, while considering the risks entailed.
- Balanced risk and opportunities management forms part of all planning processes within BRAIN and at its subsidiaries.

## 1 Risk management at BRAIN AG

### Introduction

Identifying opportunities and avoiding risks are the determinants of any corporate business strategy. BRAIN AG ("BRAIN") endeavors to identify new opportunities and exploit them successfully for its business. At the same time, business success is impossible without consciously assuming risks.

The aim is to sustainably grow the company's value through tapping opportunities, while considering the risks entailed. The systematic handling of risks and opportunities with the help of the risk management system forms part of corporate activity and an element of management steering. BRAIN AG forms part of a growth industry characterized by constant change and progress, with a focus on weighing opportunities against risks. It is crucial for BRAIN that opportunities be identified and managed to success, in order to thereby sustainably improve competitiveness and secure it long-term, as well as to ascertain and minimize risks. BRAIN AG has established instruments and processes in order to identify risks at an early juncture and to promptly implement measures in order to realize opportunities in its business activities without delay. Risk and opportunities management forms part of all planning processes within BRAIN and its subsidiaries.

## 2 Report on risks and opportunities

### Risk Management System (RMS)

#### **Features of the RMS**

The focus of the RMS is on business risks, and does not also include opportunities. The operating segments and subsidiaries take opportunities into consideration based on the corporate strategy. Potential market opportunities are evaluated as part of planning processes.

BRAIN's RMS includes the systematic identification, documentation, evaluation, management and reporting as well as constant monitoring of all relevant risks. The management thereby ensures that the targets that are set are not jeopardized by risks, and establishes risk awareness within the entire Group in accordance with statutory regulations. The RMS represents an integral element in the process system within BRAIN.



In other words, risks are presented so that they continue to be monitored following implementation of countermeasures. The focus in this context is on medium and high risks, and on risks that might jeopardize the company as a going concern.

The aim of BRAIN's RMS is not only to comply with statutory regulations but also to support internal management and business security. Overall, risk awareness should be created Groupwide in accordance with statutory regulations in order to ensure responsible handling of risks and counterstrategies accordingly.

The RMS serves solely to ascertain risks within BRAIN. Opportunities are weighed and considered based on the corporate strategy, which forms a process that is integrated into planning processes. Potential opportunities are evaluated within strategy and planning processes, and compared with potential risks.

The RMS, which undergoes constant further development, has integrated previous years' experience in its identification and management of risks. The effects of the risks as presented in the following risk and opportunities report are reported as annual risks. The evaluation of the presented risks relates to the 30 September 2020 reporting date, and was prepared from a survey in the divisions shortly before the reporting date.

Apart from the transactions presented in the section entitled "Financing of option liabilities", no relevant changes occurred after the balance sheet date that might have necessitated a modified presentation of the Group risk position.

### Risk identification

Risks are surveyed Groupwide as part of risk identification involving all decision-makers and experts with respective responsibilities. This iterative process first surveys all risks before aggregating them within a Groupwide risk inventory and evaluating them.

### Risk evaluation

Risks identified as part of a risk analysis are evaluated in terms of their likelihood of occurrence (event risk) and impact. They are categorized into risk classes ("high", "medium" and "low") by multiplying their individual impact by their respective likelihood of occurrence. The range of both likelihood and impact starts at 1 ("very low") and ends at 10 ("very high").

TABLE 04.12 LIKELIHOOD OF OCCURRING WITHIN THE NEXT TWO YEARS

| Likelihood score | Note                        |
|------------------|-----------------------------|
| 0-2              | Relatively unlikely (< 15%) |
| 3-5              | Possible (15- 45%)          |
| 6-7              | Probable (45-75%)           |
| 8-10             | Very probable (> 75%)       |

TABLE 04.13 DEGREE OF IMPACT

| Impact score | Note   | EBITDA impact        |
|--------------|--|----------------------|
| 0–2          | Minor negative impact on next two years' forecast results of operations        | < € 100 thousand     |
| 3–5          | Moderate negative impact on next two years' forecast results of operations     | up to € 500 thousand |
| 6–7          | Considerable negative impact on next two years' forecast results of operations | up to € 2 million    |
| 8–10         | Critical negative impact on next two years' forecast results of operations     | > € 2 million        |

Impact is defined as the influencing parameter on BRAIN's forecast EBITDA.

The so-called "risk score" – an individual risk evaluation for each risk for the classification – is calculated by multiplying the likelihood of occurrence by the impact. The range for the risk score consequently starts at 1 and ends at 100.

TABLE 04.14 RISK SCORE

| Risk score    | Risk class   |
|---------------|--------------|
| 0–10 points   | Low risks    |
| 11–40 points  | Medium risks |
| 41–100 points | High risks   |

Particular attention is paid to the "high" and "medium" risk classes. The focus here is on strategies to manage such risks. The "low" risk class is monitored and reviewed quarterly. In instances of doubt, risks are allocated to a higher rather than to a lower risk class.

**"High" risk class (risk measure above 40 points)**

Risks within this class include a high likelihood of occurrence combined with a major impact on the Group.

**"Medium" risk class (risk measure between 11 and 40 points)**

Risks within this class include a low likelihood of occurrence combined with a major impact, or a high likelihood of occurrence in combination with a low impact, on the Group.

**"Low" risk class (risk measure below 11 points)**

Risks within this class include a low likelihood of occurrence combined with a minor impact on the Group.

### **Risk management and monitoring**

BRAIN deploys various measures to manage risks.

Active risk measures include strategies such as risk avoidance (e.g. through refraining from engaging in excessively risky activities), risk reduction (e.g. through project controlling) and risk diversification (e.g. research in different areas). Where appropriate, BRAIN also makes recourse to passive measures including either a transfer of risk (e.g. through insurance) or the conscious assumption of risks.

Identified risks are reviewed and discussed at BRAIN twice yearly, enabling specific countermeasures to be implemented if required.

### **Reporting**

The Management Board is informed on a half-yearly basis not only about medium and high opportunities and risks, but also about important changes in relation to their impact and likelihood of occurrence. The Management Board also receives internal ad hoc reports on significant risks that unexpectedly arise or are discovered. The Supervisory Board is informed by the Management Board where required.

### **Accounting-related internal control system**

The accounting-related internal control system ("ICS") aims to appraise appropriately in financial accounting terms, and to report in full, Group business transactions in accordance with respective applicable accounting regulations. The system consists of fundamental rules and procedures, as well as a clear functional separation through the dual control principle. Especially when preparing separate financial statements, when performing the reconciliation to IFRS, as well as when performing consolidation and related standard measurement and reporting, controls exist in the form of the dual control principle. The clear separation between preparation and internal review enables BRAIN to identify deviations and errors, and ensures that information is complete.

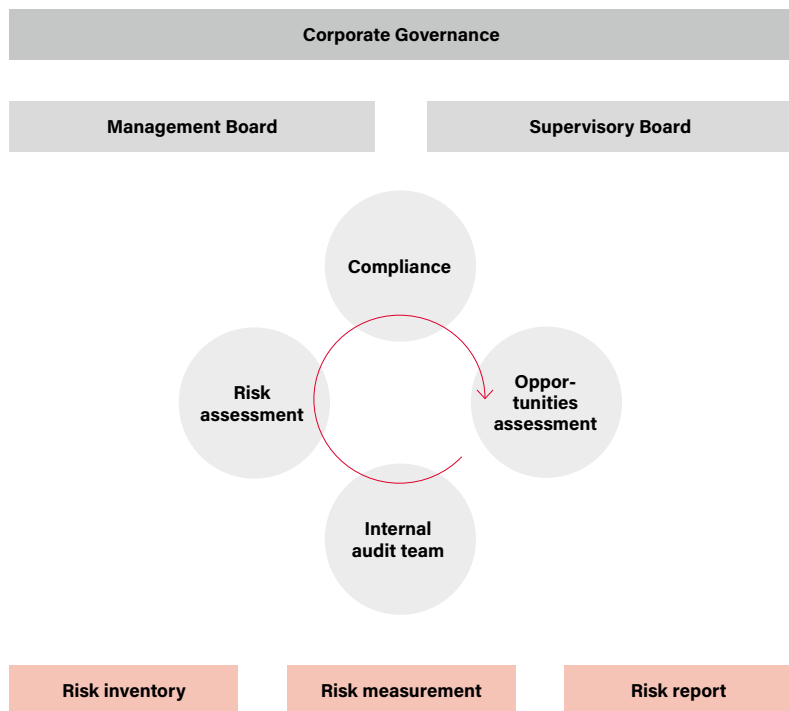
The accounting-related appraisal and recording of business transactions is implemented by the respective Group companies where such transactions occur, as a matter of principle. As an exception to this principle, BRAIN AG evaluates and records the transactions of the subsidiaries Mekon Science Networks GmbH, Zwingenberg, Germany, BRAIN US LLC, Rockville MD, USA, BRAIN UK Ltd., Cardiff, UK, BRAIN UK II Ltd., Cardiff, UK, and BRAIN Capital GmbH, Zwingenberg, Germany. The subsidiaries' annual financial statements are prepared by the respective subsidiary's management. External service providers assist in the preparation of monthly and annual financial statements based on commercial law. Amendments to acts, accounting standards and other publications are monitored regularly in relation to relevance and their effect on the separate and consolidated financial statements.

Business transactions within the Group are appraised in accounting terms based on standard Group accounting guidelines. The finance department of BRAIN AG with the support of external service providers converts financial statements prepared according to commercial-law accounting standards to IFRS financial reporting standards (quarterly), and prepares the separate annual financial statements of BRAIN AG as well as the consolidated financial statements. The independent auditor appointed by the AGM audits both the separate and the consolidated annual financial statements. Significant risks for the financial accounting process are monitored and evaluated based on the risk classes specified below, and applying their individual risk classification. Requisite controls are defined and subsequently implemented.

The separate annual financial statements and the consolidated financial statements of BRAIN AG are submitted to the Supervisory Board of BRAIN AG for approval. At least one Supervisory Board member is an independent financial expert in the meaning of Section 100 (5) of the German Stock Corporation Act (AktG). The Supervisory Board’s Audit Committee monitors the financial accounting process and the auditing of financial statements.

The accounting-related internal control system ensures that the financial accounting process complies with German commercial-law (HGB) regulations and International Financial Reporting Standards (IFRS).

FIGURE 04.6 RISK MANAGEMENT SYSTEM



### 3 Assessment of opportunities and risks in overall presentation

#### Business-related risks

##### **Growth risk**

Given BRAIN's planned growth and need to hold resources ready for such growth, risks exist in relation to a lower growth rate, and consequently potential negative effects on the operating result. The risk exists of having fewer customers or cooperation partners than planned. Macroeconomic trends or relationships with existing customers could deteriorate, and the markets that are to be served might diminish in terms of volume or attractiveness. This could lead to BRAIN achieving lower growth long-term or to reduced earnings. In addition, the risk exists that costs are higher than budgeted, or that developments require more time. As a consequence, BRAIN's growth could be delayed and positive operating results might not be achieved until later than planned. Higher liquidity requirements and the need to realize potential capital measures would represent a secondary risk in this context.

Compared to the previous year, the risk is estimated to be higher due to the widening coronavirus pandemic. This risk concerns both of BRAIN's operating segments, BioScience and BioIndustrial. This characteristic is gauged as a "medium risk", as in the previous year.

##### **Risks from research and development**

BRAIN is a technology company, and innovations form an integral part of the BRAIN strategy. The risk always exists that research projects can be delayed (please also refer in this context to the section above entitled "Growth risk"). Milestones or research targets might not be met and biotechnology solutions might not be found. With already more than 100 research projects to date, BRAIN has shown that it commands the expertise to deliver innovations and to tackle technical challenges. Although a predetermined technical path might often prove unfeasible, it has usually been the case in the past that other solutions to achieve the desired result have been developed. The Management Board is convinced that the company will continue to develop solutions in the future, although the risk of diminished innovative capability cannot be ruled out. As far as BRAIN's proprietary development projects are concerned, the company endeavors to minimize research pipeline risks long-term with its continuous portfolio management process at management level.

The same applies when concluding contracts with collaboration partners. Here, too, feasibility and timeframes are evaluated in detail in diversified and cross-disciplinary teams before contracts are concluded.

The resultant risk in the Tailor-Made Solutions area would at most involve a default on an outstanding milestone payment, a budget overrun, or the abandoning of an individual project. Such risk is to be largely avoided or minimized through the aforementioned evaluation.

Overall, the risk has decreased compared to the previous year, as innovation projects for customers were again completed in the financial year. In addition, a variety of new projects with various international partners were brought to a conclusion. As in the previous year, a "medium risk" exists here that especially relates to the BioScience segment. Indirectly, the BioIndustrial segment is affected to the extent that the products developed in the BioScience segment are generally to be sold via companies in the BioIndustrial segment.

### **Material damage to the BioArchive or research results**

The Group's bioarchives are physically present mainly at BRAIN AG and at AnalytiCon Discovery GmbH. Physical loss of the archives is minimized through measures. A redundant setup exists at various locations, as well as a security concept, and staff are trained in archive handling and management.

An insurance concept also exists to cover most of the potential costs to remedy potential losses, however. The physical measures as well as the insurance concept undergo annual review and are updated as required in order to reduce the risk to BRAIN even further.

It remains the case that individual research results could also be destroyed by external circumstances. However, these are sufficiently covered by various measures such as emergency power supplies. Various measures to safeguard the BioArchive continued to be implemented during the past financial year. Despite the reduction in risk thanks to the measures that have been implemented, a "medium risk" exists overall, especially in relation to the BioScience segment.

### **Product liability**

In its BioIndustrial area, BRAIN supplies products directly to customers. Accordingly, the risk also exists of being liable for such products. As the product range differs widely, the related risk is also to be appraised differently. In the area of cosmetics, as well as when delivering enzymes, defective products could entail liability cases for BRAIN's results. This risk is continuously monitored by internal and external partners. To date, no significant product liability cases have occurred.

As in the previous year, this risk is categorized as a "medium risk" and relates to the Bio-Industrial segment.

### **Financial risks**

Financial risks are reviewed regularly. The Group has internal guidelines to identify, investigate and evaluate financial risks at an early stage. Simultaneous comparison with planning is facilitated through monthly and quarterly written reports and ongoing communication with managers. Depending on the extent of divergences in relation to planning, BRAIN managerial functions have sufficient time to implement countermeasures. The Groupwide reporting document for all Group areas has been improved this year, and the retrieval of relevant information has been standardized.

### **Impairment of inventories/assets as well as financing risks at subsidiaries**

In light of revenue and earnings growth at some subsidiaries, and the holding available of resources for expansive growth, a risk exists that losses will be incurred if the subsidiaries report lower growth. Under certain circumstances, this could lead to financing problems or financial accounting situations that might necessitate the application of impairment losses to the respective companies' intangible assets, or the application of impairment losses to tangible assets. In the past financial year, an impairment loss of € 0.4 million was recognized in relation to other intangible assets no longer in use (production organisms) at a subsidiary.

This concerns both operating segments, BioScience and BioIndustrial. This risk is gauged as a "medium risk", as in the previous year.

### **Goodwill impairment/valuation of investments**

This financial risk relates to both segments. Given unfavorable future trends, financial risks to be categorized as "medium risk" might entail impairment losses on acquired goodwill and other intangible assets deriving from corporate acquisitions. Compared to the previous year, the risk is unchanged. Further information on this topic is presented in the section entitled "Impairment tests" in the notes to the consolidated financial statements.

### **Financing of option liabilities**

As at 30 September 2020, BRAIN holds €18.9 million of cash. BRAIN also has a €70 million loan facility at its disposal. The exercise date of the put options by the non-controlling shareholders of the Biocatalysts Group has a significant bearing on liquidity planning. Based on the incentivization of the non-controlling shareholders through rising EBITDA multiples and on the basis of the expected EBITDA growth, it is assumed that the exercise will occur in the last possible period (1 January to 31 March 2023), so that liquidity measures must be implemented at this point in time at the latest. If the non-controlling shareholders were to exercise the put options at one of the earlier contractually agreed exercise dates, liquidity measures would have to be realized at an earlier date, and at the latest at the end of 2022. For example, the exercise of all option holders at the earliest possible date (1 January to 31 March 2021) would reduce liquidity by around €8 million in the 2020/21 financial year. However, the cash outflow would be approximately €5 million less than at the assumed exercise date. Based on the aforementioned incentivization of the non-controlling shareholders, the earlier exercise of the option rights would be uneconomical, and thereby unlikely under the assumption of rational behavior on the part of the option holder.

As in the previous year, this risk is consequently categorized overall as a "medium risk" and relates to the BioScience segment.

### **Legal risks**

BRAIN generally endeavors to avoid legal risks, and has taken precautions to appraise and measure legal risks. Legal risks entailing one risk relate to litigation in the case of patents and licenses, matters in the regulatory law/capital market area, and relating to general litigation with international firms.

The risk always exists that legislation is amended in coming years (e.g. in fiscal, capital market or other legal regulations). The likelihood that legislation in an area changes is very high. The effects on business results cannot be estimated, although they would affect the entire industry. This would also then affect compliance rules that would need to be newly prepared.

This risk continues to be rated as a "medium risk".

### **IP risks**

BRAIN is a research company whose strategy is based on a competitive intellectual property foundation. A possibility of becoming involved in significant patent litigation exists, but would presumably exert no effect on BRAIN's results. Existing patent disputes either exert only a minor effect on results, or are unlikely to lead to any material damage.

The main risk in this context would be a company claiming freedom to operate. As issued patents become ever more closely intermeshed as intellectual property assets issued internationally, it is becoming increasingly difficult to find all relevant patents in corresponding patent research. This could lead to the risk of patents not being located under certain circumstances, with the potential risk that patents might be infringed unintentionally.

This risk affects both the BioScience and BioIndustrial segments. This risk is gauged as a "medium risk", as in the previous year.

### **General legal risks**

Due to the increasing industrialization and internationalization of BRAIN's business, the risk of litigation with an international corporate group is also increasing. BRAIN currently appraises the probability that contractual risks will lead to litigation as low. A lawsuit would exert a negative effect on results. Quantification cannot be estimated at present as no significant litigation exists.

The Management Board of BRAIN AG endeavors to take the enhanced regulation into consideration through regular training and instruction of staff, such as in the area of compliance.

As in the previous year, all general legal risks are categorized as a "medium risk" and relate to both operating segments BioScience and BioIndustrial.

### **Risks from acquiring and integrating companies and parts of companies, as well as from Brexit**

Due to the past acquisition of the Biocatalysts Group, opportunities and risks from the acquired company's business operations transferred to BRAIN. This risk is gauged as a "low risk", as in the previous year.

Due to the Group's expansion, an analysis was also conducted as to whether a possible withdrawal of the United Kingdom from the EU (hereinafter referred to as "Brexit") would exert an impact on BRAIN's risk position. This assessment has not changed significantly compared to the previous year, as the uncertainties remain unchanged.

In relation to the acquired Biocatalysts Group's specialty enzymes business, an analysis was conducted as to whether any effects would arise for the approval of the enzymes and their international distribution. However, as the Biocatalysts Group implements national approvals in each case, this risk can be ruled out as national approvals would not be affected by Brexit.

The company also analyzed the extent to which foreign currency transactions could become subject to risk due to a potentially weaker pound sterling. In general, it is to be noted that potential disadvantages emanating from a weaker pound sterling cannot be ruled out completely. Compared to the previous year's reporting date, the exchange rate has changed to only an insignificant extent to date.

The recruitment of staff from non-UK countries continues to be regarded as a risk. In the case of Brexit, it is assumed that the recruitment of EU citizens could become more difficult. However, the company assumes it will continue to be able to recruit suitable staff in the UK.



With regard to SolasCure Ltd., Cardiff, UK, an analysis was conducted as to whether the planned approval route could be affected by Brexit. However, as approval is conducted through a European authority, approval is independent of Brexit. The marketing of the medical device is also not affected by the UK's withdrawal from the European Union.

## **Other risks**

### **Personnel**

Overall, BRAIN employs trained personnel who constantly acquire further expertise in the context of the company's operating activities. Recent years' trends show that some positions can be filled only at great expense due to a lack of skilled staff, especially scientists, engineers and laboratory staff who already possess experience. In some instances, we note that some competitors have higher salary structures. This leads to the risk that qualified staff might defect to competitors if financial and non-financial incentives were to prove inadequate. A bonus program for BRAIN AG staff was already established in the 2015/16 financial year in order to provide incentive payments. This program is subject to annual approval by the Management Board.

The risk of loss of key knowledge holders is unchanged compared with the previous year, and continues to represent a "medium risk" for BRAIN. This risk concerns both operating segments, although mainly the BioScience segment.

### **Environment**

At any company operating in biotechnology or chemicals, a residual risk exists of harm to the environment. Such risk at BRAIN has been reduced thanks to staff training, the availability of the requisite volumes of materials, and because BRAIN has instituted organizational measures in order to prevent accidents and product spillages. Furthermore, BRAIN works very closely together with all relevant authorities and is reviewed by such authorities. This also concerns compliance with regulations relating to handling genetically modified objects ("GMOs").

This risk relates to both segments and continues to be categorized as a "medium risk".

TABLE 04.15 PRESENTATION OF THE MOST SIGNIFICANT SHORT- AND MEDIUM-TERM RISKS AT BRAIN

| Risks  | Resultant two-year estimate of impact | Segment mainly affected      |
|--|---------------------------------------|------------------------------|
| <b>Business-related risks</b>  |                                       |                              |
| Growth risk  | medium                                | BioScience and BioIndustrial |
| Risk with R&D projects   | medium                                | BioScience                   |
| Risk of loss of bioarchives  | medium                                | BioScience                   |
| Product liability risk   | medium                                | BioIndustrial                |
| <b>Financial risks</b>   |                                       |                              |
| Devaluation of inventories/assets  | medium                                | BioScience and BioIndustrial |
| Goodwill impairment/valuation of investments   | medium                                | BioScience and BioIndustrial |
| Financing of option liabilities  | medium                                | BioScience                   |
| <b>Legal risks</b>   |                                       |                              |
| IP risks   | medium                                | BioScience and BioIndustrial |
| General legal risks  | medium                                | BioScience and BioIndustrial |
| <b>Risks from acquiring and integrating companies and parts of companies, as well as from Brexit</b> |                                       |                              |
| Risks from acquiring and integrating companies and parts of companies, as well as from Brexit        | low                                   | BioIndustrial                |
| <b>Other risks</b>   |                                       |                              |
| Personnel  | medium                                | BioScience and BioIndustrial |
| Environmental risk   | medium                                | BioScience and BioIndustrial |

BRAIN evaluated a total of 48 risks. Of these risks, 27 risks are to be categorized as "medium risks"; and are aggregated in the 11 risk classes listed above (BioScience and BioIndustrial). A total of 21 risks were appraised as "low risk". No risk was evaluated as a "high risk" or as a "going concern risk" for BRAIN.

#### **Risk reporting on the deployment of financial instruments**

At BRAIN, financial instruments<sup>13</sup> are either not deployed, or deployed only to an extent that is insignificant in order to assess the Group's financial position and performance, or its prospective development. For further information, please refer to the "Risk management" section in the notes to the consolidated financial statements.

<sup>13</sup> Defined as purchase transactions, exchange transactions or otherwise endowed fixed or option transactions that are to be settled with a time delay and whose value is derived from the price or measure of an underlying asset, especially relating to the following underlying assets: foreign exchange, interest rates, securities, commodity prices and indices related to these underlying assets as well as other financial indices. Financial assets are not deployed as risk management instruments. The Group's loans serve to finance Group activities and avoid liquidity risks.

## Report on opportunities

### Opportunities arising from research and development

#### **BioScience segment**

The BioScience segment combines two research-intensive areas of BRAIN AG: firstly, contract research for customers; secondly, the development of innovative solutions and products from our incubator.

We continue to expand our market position as a service provider in industrial biotechnology. Here we provide our partners with research services and access to our resource libraries. BRAIN AG has an established industrial network in this area, which it is continuously expanding.

The New Business Development area is our incubator for solutions and products. Here, BRAIN deploys its innovations in order to tap new markets in the areas of nutrition, health and the environment. Some examples include:

#### **Woundcare**

Chronic wounds place a heavy burden on health systems in all industrialized nations due to the long duration of treatment. This effect will continue to increase in the coming decades as in line with demographic trends. As part of a self-financed research project, BRAIN has discovered an enzyme with which fly maggots as parasites liquefy the wound coating of chronic wounds in the context of maggot therapy, and has developed a related biotechnology production process. The cleaning of chronic wounds is the first step in therapy, and is often responsible for the extended treatment time. The project was spun off into SolasCure Ltd., Cardiff/UK, and, together with the external investor involvement, is currently being transferred to clinical trials. BRAIN has the opportunity to participate in the project's success by providing the active ingredient as well as through an appreciation in the value of SolasCure Ltd., Cardiff/UK.

#### **Plant-based sweeteners without the calorie burden**

We are dedicated to meeting growing demand for plant-based sweeteners for healthier foods. BRAIN has a selection of plant-based sweeteners and sweetness enhancers that have been identified through screening in natural substances utilizing its patented "Human Taste Cell" technology (HTC technology). From the substances identified in this manner, we develop natural sweeteners for various applications, markets and consumer groups. A pleasant taste profile is crucial for acceptance by consumers. The evaluation of the taste profile is carried out by a panel of taste experts, and enables immediate selection, testing and formulation of ready candidates.

#### **Fermented food**

Fermented foods are more than just another "superfood" trend. They rightly form a focus for health-conscious consumers, as they score points in many areas: no need for preservatives, upgrading/digestibility of plant-based staple foods, discovery of ever new health-promoting ingredients and a virtually unlimited wealth of new taste experiences. Thanks to its biological and technological resources, BRAIN can meet market demand for new starter cultures. The BRAIN Group has the opportunity to act as both an innovator and a manufacturing company, and not only participate in an attractive market (volume predicted for 2025: USD 1.3 billion), but also develop completely new product categories.

### **Urban mining**

Although e-waste contains increasingly less metal, it is accumulating in ever larger quantities. At the same time, previous bulk buyers such as China have imposed import bans, and society's call for sustainable resource utilization is becoming ever louder. Our current plant concept will also make it possible to treat waste flows with a low precious metal content in a sustainable and cost-effective manner. BRAIN is thereby in part creating new markets, enabling it to participate in profitable business if successful. We are currently selecting suitable partners to commercialize this innovative technology on an industrial scale. Once it has been launched, BRAIN will be able to participate in market development through both product sales and revenue sharing.

### **Business-related opportunities**

#### **BioIndustrial segment:**

In the BioIndustrial segment, we are continuing along the path of forward integration on which we started in previous years. BRAIN AG has set itself the goal of covering the entire value chain from laboratory through to production. This enables us to participate in the value chain all the way to the customer, as well as to generate sales revenues over the entire life cycle of the products. The positive organic growth in the past financial year has shown that this strategy is paying off, despite the generally difficult economic environment. Here, BRAIN has the opportunity to continue along this path and improve its revenues and results. This represents a consistent step from being a research company to becoming an industrial company. Integration offers the company the possibility to act not only as an innovator but also as a manufacturing firm.

#### **Corporate governance:**

The Management Board is working on realizing cost and revenue synergies within the Group. This requires good networking among the subsidiaries, as well as centralized performance and target controlling. In this context, we also acquired the outstanding non-controlling interest of 24.7% in WeissBioTech GmbH, Ascheberg.

# Takeover-relevant information pursuant to Section 315a of the German Commercial Code (HGB)

The following information reflects the circumstances as at the 30 September 2020 reporting date.

## **Composition of subscribed share capital (No. 1)**

The share capital of BRAIN AG amounts to € 19,861,360 on the reporting date. The share capital is divided into 19,861,360 ordinary shares, to each of which a proportional amount of the share capital of € 1.00 is attributable. The shares are fully paid-in registered shares. The company holds no treasury shares on the reporting date.

## **Restrictions affecting voting rights or transfer of shares (No. 2)**

The company's Management Board is not aware of any restrictions affecting voting rights or the transfer of shares, including those potentially deriving from agreements between shareholders.

## **Shareholdings with more than 10% of the voting rights (No. 3)**

MP Beteiligungs-GmbH, Kaiserslautern, holds an approximately 36% interest in the company's share capital as at 30 September 2020. As at 30 September 2020, no further shareholders existed with interests of more than 10% in the voting rights.

## **Holders of shares with special rights (No. 4)**

No shares exist at BRAIN AG with special rights endowing control powers.

## **Voting rights control of employees who are shareholders (No. 5)**

No voting rights controls for employees who are shareholders exist for the instance of control rights that are not to be exercised directly.

## **Rules concerning the appointment and recall from office of Management Board members (No. 6)**

Pursuant to Section 84 of the German Stock Corporation Act (AktG) and the bylaws of BRAIN AG, the Supervisory Board appoints the members of the Management Board. Pursuant to Section 7 of the bylaws of BRAIN AG, the Management Board consists of one or several individuals. The Supervisory Board determines the number of Management Board members. It can appoint a Management Board Chair (CEO) and a Deputy Management Board Chair, as well as deputy Management Board members. If the Management Board consists of several members, Management Board resolutions are passed with a simple majority of votes. If the

Supervisory Board has appointed a Management Board Chair, and if the Management Board consists of three members, the vote of the Management Board Chair decides given an equal number of votes.

#### **Rules concerning amendments to the bylaws (No. 6)**

Pursuant to Section 179 of the German Stock Corporation Act (AktG) and the bylaws of BRAIN AG, amendments to the bylaws require an AGM resolution. AGM resolutions require a simple majority of votes, unless the law stipulates a greater majority.

#### **Management Board authorizations concerning issuing and repurchasing shares (No. 7)**

BRAIN AG has the following authorized and conditional capital:

##### **Authorized capital**

With an AGM resolution on 8 March 2018, authorized capital of € 9,027,891 was created (Authorized Capital 2018/I). Authorized Capital 2018/I was entered in the commercial register on 23 March 2018. The Management Board was authorized, with Supervisory Board assent, to increase the company's share capital in the period until 7 March 2023, once or on several occasions, albeit by a maximum of up to a nominal amount of € 9,027,891 through issuing up to 9,027,891 new ordinary registered shares against cash or non-cash capital contributions, whereby shareholders' statutory subscription rights can be wholly or partly excluded. If the new shares are issued against cash capital contributions, shareholders' statutory subscription rights can be wholly or partially excluded if the new shares' issue price is not significantly less than the stock market price of the company's shares already listed on the date when the issue price is finally determined, and the total number of shares issued in this manner under exclusion of subscription rights does not exceed 10% of the share capital. By resolution of the Management Board on 3 June 2020, and with the approval of the Supervisory Board on the same date, the authorized capital was partially utilized for a capital increase, excluding statutory subscription rights, in the amount of € 1,805,578. The capital increase from authorized capital was entered in the commercial register on 5 June 2020.

Accordingly, authorized capital of € 7,222,313 was recorded on the 30 September 2020 reporting date.

##### **Conditional capital**

Pursuant to Section 5 (3), (4) and (5) of the company's bylaws, the share capital is conditionally increased by € 5,090,328 through issuing up to 5,090,328 new ordinary registered shares (Conditional Capital 2015/I) and by a further € 123,000 through issuing up to 123,000 new ordinary registered shares (Conditional Capital 2015/II), and through issuing up to 1,682,578 new ordinary registered shares (Conditional Capital 2019/I).

Conditional Capital 2015/I serves exclusively to grant shares to the holders of bonds with warrants and convertible bonds that the company issues based on the authorization of the Management Board by way of AGM resolution passed on 8 July 2015. The conditional capital increase is to be implemented through issuing up to 5,090,328 new ordinary registered shares only to the extent that the holders of convertible bonds and/or bonds with warrants utilize their

conversion rights or warrant rights, or the holders of convertible bonds that are obligated to convert satisfy their obligation to convert, and to the extent that other forms of satisfaction are not deployed to service the bonds. An increase in the share capital from Conditional Capital 2015/I had not been implemented as at the 30 September 2020 reporting date.

Conditional Capital 2015/II serves exclusively to service subscription rights arising from stock options that are granted – pursuant to the AGM resolution dated 8 July 2015 as part of a stock option plan comprising up to 123,000 stock options that carry subscription rights to shares of BRAIN AG with a term of up to eight years – to the members of the company's Management Board, members of affiliated companies' management boards, as well as managers and other company employees in senior positions. The conditional capital increase is to be implemented only to the extent that the holders of issued subscription rights utilize them, and the company does not grant treasury shares or cash settlement to satisfy these subscription rights. An increase in the share capital from Conditional Capital 2015/II had not been implemented as at the 30 September 2020 reporting date. At the Annual General Meeting on 7 March 2019, Conditional Capital 2015/II was reduced from originally € 1,272,581 to € 123,000, as this capital was to remain exclusively for hedging stock options already issued. The authorization to issue further stock options from Conditional Capital 2015/II was revoked at the same Annual General Meeting and replaced by a new authorization (see following section).

By resolution of the Annual General Meeting on 7 March 2019, the share capital was conditionally increased by € 1,682,578 through the issue of up to 1,682,578 new no-par-value registered shares (Conditional Capital 2019/I). The conditional capital serves exclusively to service subscription rights from stock options granted to members of the company's Management Board and other senior company managers. The Management Board is authorized, with the approval of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase. The conditional capital increase is to be implemented only to the extent that the holders of issued subscription rights utilize them, and the company does not grant treasury shares or cash settlement to satisfy these subscription rights. An increase in the share capital from Conditional Capital 2019/I had not been implemented as at the 30 September 2020 reporting date.

### **Stock options**

An AGM resolution dated 7 March 2019 authorized the Management Board, with Supervisory Board approval, to issue as part of a stock option plan until 12 March 2027 up to 1,682,578 stock options with subscription rights to shares of BRAIN AG with a term of up to eight years, with the condition that each stock option grant the right to subscribe for one share according to further provisions. As far as issuing shares to members of the Management Board of BRAIN AG is concerned, this authorization is valid for the Supervisory Board alone. The AGM conditionally increased the share capital by € 1,682,578 to hedge and service the stock options (Conditional Capital 2019/I).

### **Significant agreements for the instance of a change of control due to a takeover offer (Number 8) and compensation agreements in the case of a takeover offer (Number 9)**

The company has not entered into any arrangements in the meaning of Section 315a (4) Nos. 8 and 9 HGB.

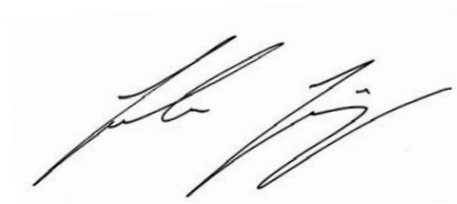
# Corporate governance statement of conformity pursuant to Section 289f and Section 315d of the German Commercial Code (HGB)

The corporate governance statement of conformity of BRAIN AG pursuant to Section 289f and Section 315d of the German Commercial Code (HGB) is published on the website at [www.brain-biotech.de/investor-relations/corporate-governance](http://www.brain-biotech.de/investor-relations/corporate-governance).

Zwingenberg, 22 December 2020



**Adriaan Moelker**  
Chief Executive Officer



**Lukas Linnig**  
Chief Financial Officer



# Responsibility statement

We hereby declare that, to the best of our knowledge, the consolidated financial statements convey a true and fair view of the Group's financial position and performance in accordance with applicable accounting principles, the progress of business including the business results and the Group's position are presented in the Group management report so as to convey a true and fair view, and the significant opportunities and risks pertaining to the Group's prospective development are described.



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# Consolidated financial statements

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TABLE 05.1 CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2020

| € thousand  | Note | 30.09.2020    | 30.09.2019<br>adjusted* |
|---|------|---------------|-------------------------|
| <b>Non-current assets</b>                             |      |               |                         |
| Intangible assets                                     | [12] | 13,271        | 15,794                  |
| Property, plant and equipment                         | [13] | 24,470        | 17,144                  |
| Equity-accounted investments                          | [14] | 997           | 1,438                   |
| Other non-current assets                              | [18] | 329           | 791                     |
|   |      | <b>39,067</b> | <b>35,167</b>           |
| <b>Current assets</b>                                 |      |               |                         |
| Inventories   | [15] | 6,964         | 8,032                   |
| Trade receivables                                     | [16] | 6,166         | 6,388                   |
| Other current assets                                  | [18] | 585           | 1,154                   |
| Current tax assets                                    | [10] | 93            | 10                      |
| Other financial assets                                | [17] | 332           | 213                     |
| Cash and cash equivalents                             | [19] | 18,943        | 15,160                  |
|   |      | <b>33,083</b> | <b>30,957</b>           |
| <b>ASSETS</b>   |      | <b>72,150</b> | <b>66,123</b>           |
| <b>Equity</b> [20]                                    |      |               |                         |
| Subscribed capital                                    |      | 19,861        | 18,056                  |
| Capital reserves                                      |      | 78,386        | 65,170                  |
| Retained earnings                                     |      | -77,497       | -67,919                 |
| Other reserves  |      | 35            | 9                       |
|   |      | <b>20,785</b> | <b>15,316</b>           |
| Non-controlling interests                             |      | 5,358         | 4,857                   |
| <b>Total equity</b>                                   |      | <b>26,143</b> | <b>20,172</b>           |
| <b>Non-current liabilities</b>                        |      |               |                         |
| Deferred tax  | [10] | 2,155         | 2,593                   |
| Provisions for post-employment benefits for employees | [5]  | 2,803         | 2,858                   |
| Financial liabilities                                 | [21] | 27,320        | 23,398                  |
| Other liabilities                                     | [22] | 3             | 764                     |
| Deferred income                                       | [23] | 1,369         | 1,466                   |
|   |      | <b>33,650</b> | <b>31,078</b>           |
| <b>Current liabilities</b>                            |      |               |                         |
| Provisions  | [24] | 387           | 381                     |
| Tax liabilities                                       | [10] | 325           | 784                     |
| Financial liabilities                                 | [21] | 3,277         | 3,603                   |
| Prepayments received                                  | [25] | 70            | 170                     |
| Trade payables  | [26] | 3,171         | 4,428                   |
| Other liabilities                                     | [22] | 4,266         | 2,919                   |
| Deferred income                                       | [23] | 861           | 2,588                   |
|   |      | <b>12,357</b> | <b>14,873</b>           |
| <b>EQUITY AND LIABILITIES</b>                         |      | <b>72,150</b> | <b>66,123</b>           |

\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements

TABLE 05.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE PERIOD 1 OCTOBER 2019 – 30 SEPTEMBER 2020

| € thousand  | Note | 12M 19/20<br>01.10.2019 –<br>30.09.2020 | 12M 18/19<br>01.10.2018 –<br>30.09.2019<br>adjusted* |
|---|------|---|--|
| Revenue   | [1]  | 38,225                                  | 38,560   |
| Research and development grant revenue                                      | [2]  | 839                                     | 1,486  |
| Change in inventories of unfinished and finished goods and work in progress |      | -378                                    | -54  |
| Other income  | [3]  | 552                                     | 1,238  |
| <b>Total operating performance</b>  |      | <b>39,238</b>                           | <b>41,231</b>  |
| <b>Cost of materials</b>  | [4]  |   |  |
| Cost of raw materials, consumables and supplies, and purchased merchandise  |      | -14,115                                 | -14,317  |
| Cost of purchased services  |      | -2,532                                  | -3,075   |
|   |      | <b>-16,647</b>                          | <b>-17,393</b>                                       |
| <b>Personnel expenses</b>   | [5]  |   |  |
| Wages and salaries  |      | -15,584                                 | -14,544  |
| Share-based employee compensation   |      | -629                                    | -266   |
| Social security and post-employment benefit costs                           |      | -2,935                                  | -2,831   |
|   |      | <b>-19,147</b>                          | <b>-17,641</b>                                       |
| Other expenses  | [7]  | -7,320                                  | -8,694   |
| <b>EBITDA</b>   |      | <b>-3,876</b>                           | <b>-2,496</b>  |
| Depreciation, amortization and impairment                                   | [6]  | -4,353                                  | -4,702   |
| <b>Operating result (EBIT)</b>  |      | <b>-8,229</b>                           | <b>-7,198</b>  |
| Share of profit or loss from equity-accounted investments                   | [14] | -2,389                                  | -1,788   |
| Finance income  | [8]  | 1,546                                   | 940  |
| Finance costs   | [9]  | -872                                    | -3,064   |
| <b>Net financial result</b>   |      | <b>-1,715</b>                           | <b>-3,912</b>  |
| <b>Pretax loss for the reporting period</b>                                 |      | <b>-9,944</b>                           | <b>-11,111</b>                                       |
| <b>Income tax expense/income</b>  | [10] |   |  |
| a) Current tax expense/income   |      | 533                                     | -319   |
| b) Deferred tax income  |      | 394                                     | 310  |
|   |      | 927                                     | -9   |
| <b>Net loss for the reporting period</b>                                    |      | <b>-9,017</b>                           | <b>-11,119</b>                                       |
| of which attributable to non-controlling interests                          |      | 667                                     | -19  |
| of which attributable to the shareholders of BRAIN AG                       |      | -9,684                                  | -11,100  |
| <b>Earnings per share</b>   | [11] |   |  |
| Earnings per share, basic undiluted (in €)                                  |      | -0.52                                   | -0.61  |
| Number of shares taken as basis   |      | 18,657,641                              | 18,055,782   |
| Earnings per share, diluted (in €)  |      | -0.52                                   | -0.61  |
| Number of shares taken as basis   |      | 18,657,641                              | 18,055,782   |

\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

| € thousand   | Note | 12M 19/20<br>01.10.2019 –<br>30.09.2020 | 12M 18/19<br>01.10.2018 –<br>30.09.2019<br>adjusted* |
|--|------|---|--|
| <b>Net loss for the reporting period</b>   |      | <b>-9,017</b>                           | <b>-11,119</b>                                       |
| of which attributable to non-controlling interests                                   |      | 667                                     | -19  |
| of which attributable to the shareholders of BRAIN AG                                |      | -9,684                                  | -11,100  |
| <b>Other comprehensive income</b>  |      |   |  |
| Net gain or loss from revaluing obligations from post-employment employee benefits** | [5]  | 44                                      | -644   |
| Currency translation   |      | -139                                    | 1  |
| Other comprehensive income, net  |      | -96                                     | -643   |
| <b>Consolidated total comprehensive income (loss)</b>                                |      | <b>-9,113</b>                           | <b>-11,762</b>                                       |
| of which attributable to non-controlling interests                                   |      | 502                                     | -43  |
| of which attributable to the shareholders of BRAIN AG                                |      | -9,614                                  | -11,719  |

\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

\*\* Items that will not be subsequently reclassified to profit or loss.

TABLE 05.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 01.10.2019 – 30.09.2020

| Note (20)<br>€ thousand   | Interests of shareholders of BRAIN AG |                             |                              |  | Non-controlling interests |              |               |
|---|---------------------------------------|-----------------------------|------------------------------|--|---------------------------|--------------|---------------|
|   | Subscribed capital                    | Capital reserves, adjusted* | Retained earnings, adjusted* | Other reserves<br>Currency translation | Total                     | Total        | Total         |
| <b>Balance at 30 September 2018</b>                                       | <b>18,056</b>                         | <b>64,606</b>               | <b>-59,133</b>               | <b>-1</b>                              | <b>23,528</b>             | <b>4,884</b> | <b>28,412</b> |
| Effects from first-time application of IFRS 9                             | 0                                     | 0                           | -34                          | 0                                      | -34                       | 0            | -34           |
| IAS 8 adjustments for put option liabilities                              | 0                                     | 363                         | 1,622                        | -15                                    | 1,970                     | 0            | 1,970         |
| IAS 8 adjustments for pension commitments                                 | 0                                     | 0                           | 1,385                        | 0                                      | 1,385                     | 0            | 1,385         |
| <b>Balance at 1 October 2018</b>  | <b>18,056</b>                         | <b>64,969</b>               | <b>-56,160</b>               | <b>-16</b>                             | <b>26,850</b>             | <b>4,884</b> | <b>31,734</b> |
| <i>Net loss for the reporting period</i>                                  | 0                                     | 0                           | -11,100                      | 21                                     | -11,079                   | -40          | -11,119       |
| <i>Other comprehensive income</i>   | 0                                     | 0                           | -644                         | 4                                      | -640                      | -3           | -643          |
| Total comprehensive income (loss)   | 0                                     | 0                           | -11,744                      | 25                                     | -11,719                   | -43          | -11,762       |
| Effects from the disposal of fully consolidated Group companies           | 0                                     | 0                           | -15                          | 0                                      | -15                       | 15           | 0             |
| Transfers due to employee share scheme                                    | 0                                     | 200                         | 0                            | 0                                      | 200                       | 0            | 200           |
| <b>Balance at 30 September 2019</b>                                       | <b>18,056</b>                         | <b>65,170</b>               | <b>-67,919</b>               | <b>9</b>                               | <b>15,316</b>             | <b>4,857</b> | <b>20,173</b> |
| Effects from first-time application of IFRS 16                            | 0                                     | 0                           | 62                           | 0                                      | 62                        | 0            | 62            |
| <b>Balance at 1 October 2019</b>  | <b>18,056</b>                         | <b>65,170</b>               | <b>-67,857</b>               | <b>9</b>                               | <b>15,377</b>             | <b>4,857</b> | <b>20,234</b> |
| Cash capital increase from authorized capital, less capital raising costs | 1,806                                 | 12,768                      | 0                            | 0                                      | 14,573                    | 0            | 14,573        |
| <i>Net loss for the reporting period</i>                                  | 0                                     | 0                           | -9,684                       | 0                                      | -9,684                    | 667          | -9,017        |
| <i>Other comprehensive income</i>   | 0                                     | 0                           | 44                           | 26                                     | 69                        | -165         | -96           |
| Total comprehensive income (loss)   | 0                                     | 0                           | -9,640                       | 26                                     | -9,614                    | 502          | -9,113        |
| Transfers due to employee share scheme                                    | 0                                     | 449                         | 0                            | 0                                      | 449                       | 0            | 449           |
| <b>Balance at 30 September 2020</b>                                       | <b>19,861</b>                         | <b>78,386</b>               | <b>-77,497</b>               | <b>35</b>                              | <b>20,785</b>             | <b>5,358</b> | <b>26,144</b> |

\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.



TABLE 05.4 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 OCTOBER 2019 – 30 SEPTEMBER 2020

| Note (19)  | 12M 19/20<br>01.10.2019 – 30.09.2020 | 12M 18/19<br>01.10.2018 – 30.09.2019<br>adjusted* |
|--|--------------------------------------|---|
| € thousand   |                                      |   |
| Net profit (/loss) for the period, after tax   | -9,017                               | -11,119   |
| Depreciation, amortization and impairment  | 4,353                                | 4,702   |
| Deferred tax expense/income  | -394                                 | -310  |
| Conversion of deferred income into revenue   | -3,057                               | -3,152  |
| Income from release of provisions and liabilities                                      | -84                                  | -156  |
| Share of profit or loss from equity-accounted investments                              | 2,389                                | 1,788   |
| Change in net pension provisions recognized in profit or loss                          | 11                                   | -23   |
| Other non-cash expenses and income   | -304                                 | 2,017   |
| Losses on disposals of intangible assets and property, plant and equipment             | 47                                   | -3  |
| <b>Gross cash flow</b>   | <b>-6,056</b>                        | <b>-6,257</b>                                     |
| Change in trade receivables  | 56                                   | -243  |
| Change in inventories  | 730                                  | -874  |
| Change in tax assets and liabilities   | -555                                 | 237   |
| Change in other assets and financial assets  | 457                                  | -552  |
| Change in trade payables   | -1,261                               | 1,686   |
| Change in prepayments  | -100                                 | 172   |
| Change in provisions and other liabilities   | 707                                  | -623  |
| Additions from deferred income   | 1,255                                | 3,073   |
| <b>Cash flows from operating activities</b>  | <b>-4,767</b>                        | <b>-3,380</b>                                     |
| Net cash inflows from disposals of companies (less cash and cash equivalents divested) | 0                                    | -69   |
| Payments to acquire intangible assets  | -39                                  | -21   |
| Payments to acquire property, plant and equipment                                      | -2,820                               | -6,616  |
| Investments in interests in fully consolidated affiliates                              | 0                                    | 0   |
| Net cash flows relating to other non-current assets                                    | 240                                  | -46   |
| Investments in equity-accounted investments  | -1,874                               | 0   |
| Proceeds from disposal of property, plant and equipment                                | 24                                   | 9   |
| <b>Cash flows from investing activities</b>  | <b>-4,469</b>                        | <b>-6,743</b>                                     |
| Proceeds from borrowings   | 1,254                                | 1,663   |
| Repayments of borrowings   | -2,733                               | -1,945  |
| Proceeds from shareholders' cash capital increases                                     | 0                                    | 6   |
| Contributions to equity, less related capital raising costs                            | 14,573                               | 0   |
| <b>Cash flows from financing activities</b>  | <b>13,093</b>                        | <b>-276</b>                                       |
| <b>Net change in cash and cash equivalents</b>   | <b>3,857</b>                         | <b>-10,400</b>                                    |
| Cash and cash equivalents at start of financial year                                   | 15,160                               | 25,539  |
| Exchange-rate-related change in cash   | -74                                  | 21  |
| <b>Cash and cash equivalents at end of financial year</b>                              | <b>18,943</b>                        | <b>15,160</b>                                     |
| <b>Cash flows from operating activities include:</b>                                   |                                      |   |
| Interest paid  | -486                                 | -430  |
| Interest received  | 28                                   | 10  |
| Income taxes paid  | -29                                  | -224  |
| Income taxes received  | 73                                   | 27  |

\* Figures partly adjusted. See the section "IAS 8 corrections" in the notes to the consolidated financial statements.

# Notes

## I. General Information

### General information about the company

B·R·A·I·N Biotechnology Research and Information Network Aktiengesellschaft (also referred to below as "BRAIN AG", "BRAIN" or the "Company") is entered in the commercial register of the Darmstadt District Court under commercial sheet register number 24758. The company's registered offices are located at Darmstädter Strasse 34–36 in 64673 Zwingenberg, Germany.

BRAIN AG is a growth company in the industrial biotechnology sector. The BRAIN Group (hereinafter referred to as "BRAIN" or "the Group" or the "BRAIN Group") focuses its business activities on the areas of nutrition, health and the environment. A science-based product business forms the core of our strategic orientation.

The BioScience segment comprises our R&D programs for contract research conducted in partnership with industrial companies. These programs aim to make previously untapped high-performance enzymes, microbial producer organisms as well as natural substances deriving from complex biological systems usable in an industrial context. The BioScience segment is also home to our incubator. Here, deploying both our own research funds and working together with partners, we aim for breakthroughs in biotechnologically produced solutions that address a number of society's most pressing issues: nature-based food, health, and environmentally compatible production methods.

The BioIndustrial segment comprises mainly the industrially scalable business with a focus on the production of enzymes, microorganisms and bioactive natural substances. By investing in its own fermentation capacities, the BRAIN Group has significantly expanded its value chain in this segment.

BRAIN has a comprehensive research and development infrastructure at the location in Zwingenberg, and at the site of the subsidiary AnalytiCon Discovery GmbH in Potsdam, with the latter focusing on natural compounds. Special production expertise and market access is offered by our subsidiaries in relation to enzyme products, microorganisms and bioactive natural compounds: WeissBioTech GmbH, Ascheberg, and Biocatalysts Limited, Cardiff, UK. Cosmetic products are manufactured and distributed by L.A. Schmitt GmbH, Ludwigstadt, Germany. Moreover, as part of the spin-off SolasCure Ltd. based in Cardiff, UK, an ingredient for enzymatic wound healing is to be approved for marketing.

The targets in terms of a "bioeconomy" are to replace conventional chemical-industrial processes with innovative resource-conserving processes, as well as to establish new processes and products. The BRAIN Group utilizes biotechnology processes in order to manufacture sustainable products. Our products and services directly address the following UN Sustainable Development Goals: 2, 3, 6, 9, 12 and 13.

### General basis of financial accounting

BRAIN AG has been listed on the stock market since 9 February 2016 and is oriented to the capital market. As a consequence, the regulations of Section 315e (1) of the German Commercial Code (HGB) are applicable when preparing the consolidated financial statements. The consolidated financial statements prepared by the parent company BRAIN AG for the year

ending 30 September 2020 (the “consolidated financial statements” or “financial statements”) were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union. The financial statements of BRAIN AG are included in the consolidated financial statements of MP Beteiligungs-GmbH, Kaiserslautern, by way of equity accounting. The consolidated financial statements of MP Beteiligungs-GmbH are published in the German Federal Gazette (Bundesanzeiger).

The reporting period comprises the period from 1 October 2019 to 30 September 2020. This period corresponds to the financial year of BRAIN AG. For historical reasons, the annual financial statements of WeissBioTech GmbH, Ascheberg, WeissBioTech S.A.R.L., Chanteloupen-Brie, France, and AnalytiCon Discovery LLC, Rockville, MD, USA, are prepared based on a calendar year-end reporting date. Where a financial year differs, annual figures based on the Group's financial year are calculated for the consolidated financial statements, and included in the financial statements on this basis.

These consolidated financial statements of BRAIN AG were approved by the Management Board for submission to the Supervisory Board on 4 December 2020. The review and approval by the Supervisory Board is to occur as of 22 December 2020.

### **New accounting regulations applied**

For the first time, the Group has applied certain standards and amendments that are to be applied to financial years commencing on or after 1 October 2019. The Group has not voluntarily applied any other standards, interpretations or amendments, which, although published, are not yet effective.

#### **IFRS 16 - “Leases”**

On 13 January 2016, the International Accounting Standards Board (IASB) published its new accounting standard on lease accounting (IFRS 16 “Leases”). According to this standard, all leases and accompanying contractual rights and obligations are to be recognized on the lessee's balance sheet. For leases with a term of up to one year and low-value leases, the lessee has the option to apply accounting in accordance with current operating leases.

For all leases, the lessee recognizes on its balance sheet a lease liability for the obligation to render lease payments in the future. At the same time, the lessee capitalizes a right-of-use to the underlying asset corresponding to the present value of the future lease payments, including any directly attributable costs. During the term of the lease agreement, the lease liability is carried forward applying a financial-mathematical method similar to IAS 17 “Leases” regulations for financing leases, while the right-of-use is amortized straight-line over the term of the lease contract, which generally leads to higher expenses at the start of a lease term. The regulations on lease accounting on the lessor's side remain largely unchanged.

The new regulations are to be applied to the entire contract portfolio, whereby with some practical expedients the initial application is to be implemented either fully retrospectively, or with a cumulative effect in equity at the start of the year of first-time application, without restating the previous year's figures. IFRS 16 also includes a number of further regulations on reporting and in relation to disclosures to be made in the notes to the financial statements, as well as on sale-and-leaseback transactions.

The new regulations of IFRS 16 apply to BRAIN AG primarily as a lessee and in connection with lease agreements for buildings and vehicles. The transition to IFRS 16 was realized applying the modified retrospective approach with recognition of the cumulative transition effect as at 1 October 2019. Comparative figures for the previous year were not adjusted.

On transition to IFRS 16, payment obligations from existing operating leases were discounted at the corresponding incremental borrowing rates. The interest rates were determined on the basis of the leases' remaining terms. The weighted average interest rate applied to discount the leases existing as at 1 October 2019 was 3.3%. The resulting present values were recognized as lease liabilities. The leased assets' rights-of-use were recognized in the amount of the lease liabilities. In determining the term of the leases, hindsight information was taken into account in determining the probability of extension or termination options being exercised.

BRAIN AG has made use of the following IFRS 16 practical expedients:

- Rights-of-use and corresponding lease liabilities with a term of up to one year have not been, and will not be, recognized on the balance sheet;
- Rights-of-use and corresponding liabilities from low-value leases have not been, and will not be, recognized on the balance sheet;
- For some asset classes the rights-of-use relating to assets, a separation of leasing and non-leasing components has not been, and will not be, applied. Lease and non-lease components are separated only for leases of land and buildings;
- For contracts existing at the time of first-time application, the previous assessment according to IAS 17 and IFRIC 4 for the existence of a lease was retained;
- No impairment testing of the right-of-use was performed as part of initial application; instead, existing provisions for onerous contracts were offset against the right-of-use.

### Summary

The following table shows the adjustments resulting from the first-time application of IFRS 16 on the consolidated balance sheet as at 1 October 2019.

#### Opening balance sheet - IFRS 16 adjustments

| € thousand                          | 01.10.2019   |
|-------------------------------------|--------------|
| Property, plant and equipment       |              |
| Land and buildings                  | 3,010        |
| Operating and office equipment      | 54           |
| Rights-of-use                       | 3,064        |
| <b>Total assets</b>                 | <b>3,064</b> |
| Retained earnings                   | 62           |
| <b>Non-current liabilities</b>      |              |
| Leasing liabilities                 | 2,727        |
| <b>Current liabilities</b>          |              |
| Leasing liabilities                 | 275          |
| <b>Total equity and liabilities</b> | <b>3,064</b> |

Based on the payment obligation for operating leases (IAS 17) as at 30 September 2019, the opening balance sheet value of the lease liability as at 1 October 2019 was reconciled as follows.

**Opening balance sheet – reconciliation of leasing liabilities**

| € thousand   | 01.10.2019   |
|--|--------------|
| Payment obligations for operating leases as at 30.09.2019 (IAS 17) | 1,714        |
| Extension options  | 1,628        |
| Other  | -59          |
| <b>Undiscounted lease liabilities as at 01.10.2019</b>             | <b>3,284</b> |
| Discounting  | -270         |
| <b>IFRS 16 lease liabilities as at 01.10.2019</b>                  | <b>3,003</b> |
| Liabilities from finance leases as at 30.09.2019 (IAS 17)          | 1,351        |
| <b>Leasing liabilities as at 01.10.2019</b>                        | <b>4,354</b> |

**Amendment to IFRS 9 “Financial Instruments” – Prepayment Features with Negative Compensation:**

The amendments relate to the assessment criteria relevant for the classification of financial assets. Financial assets with a negative prepayment penalty may, under certain conditions, be recognized at amortized cost, or at fair value through other comprehensive income, rather than at fair value through profit or loss. The amendments did not have any effect on BRAIN AG.

**IFRIC 23 “Uncertainty over Income Tax Treatments”:**

IFRIC 23 supplements the regulations of IAS 12 relating to the consideration of uncertainties concerning the income tax treatment of circumstances and transactions in relation to both current and deferred taxes. The supplementary regulations do not have any effect on BRAIN AG.

**Amendments to IAS 19 “Employee Benefits” – “Plan Amendment, Curtailment or Settlement”:**

The amendments include the measurement of pension obligations in the event of plan amendments, curtailments and settlements on the basis of updated assumptions. After such an event, the past service cost as well as any gains and losses are to be determined on the basis of the existing actuarial assumptions, and a comparison based on those assumptions of the benefit obligation before and after the change. As part of subsequent measurement, the periods before and after the plan amendments, curtailments or settlements are considered separately. The improvements to IAS 19 did not have any effect on BRAIN AG for the 2019/20 financial year.

**Amendment to IAS 28 “Investments in Associates and Joint Ventures”**

The amendments clarify that IFRS 9 applies to non-current investments in associates or joint ventures that are not equity accounted. The amendments do not have any effect on BRAIN AG.

**Annual improvements IFRS 2015 – 2017:**

The improvements led to amendments of four standards. The amendments do not have any effect on BRAIN AG.

**Accounting regulations published but not yet applied**

The following accounting regulations that have been published and are potentially relevant, but which do not yet require mandatory application, have not been applied early on a voluntary basis:

**Amendments to IAS 1 regarding the classification of liabilities as current or non-current:**

*To be applied to financial years commencing on or after 1 January 2023. Early, voluntary application of the regulations is permitted.*

**Amendments to IAS 1 and IAS 8 regarding the definition of material:**

*To be applied to financial years commencing on or after 1 January 2020. Early, voluntary application of the regulations is permitted.*

**Amendments to IFRS 9, IAS 39 and IFRS 7 regarding the effects of the Interest Rate Benchmark Reform (Phase 1):**

*To be applied to financial years commencing on or after 1 January 2020. Early, voluntary application of the regulations is permitted.*

**Amendments to References to the Conceptual Framework in IFRS Standards:**

*To be applied to financial years commencing on or after 1 January 2020. Early, voluntary application of the regulations is permitted.*

**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to the effects of the Interest Rate Benchmark Reform (Phase 2):**

*To be applied to financial years commencing on or after 1 January 2021. Early, voluntary application of the regulations is permitted.*

**Annual improvements IFRS 2018 – 2020:**

*To be applied to financial years commencing on or after 1 January 2022. Early, voluntary application of the regulations is permitted.*

The effects of the aforementioned new accounting regulations that are not yet applied are currently being investigated. At present, however, the company does not expect these to generate significant effects. All accounting regulations that are not mentioned and that have not yet been applied are not relevant for the consolidated financial statements of BRAIN AG.

## Presentation of the financial statements

The income statement is extended to include other comprehensive income items recognized in equity, to the extent these do not arise from transactions with owners. The income statement is structured according to the nature of expense method. Moreover, in relation to certain matters the Management Board defines adjustments for non-operating or non-recurring effects up to the level of EBITDA. These are presented in a separate reconciliation statement in the section "Adjustments to earnings". For definitions, please refer to the information provided on segment reporting.

The financial statements are presented in thousands of euros, unless stated otherwise, for ease of readability. Rounding differences can arise due to commercial rounding.

## IAS 8 corrections

### **Pension commitments to former Management Board members or to Management Board members who left the company during the financial year:**

In connection with the departure of the Chairman of the Management Board (CEO) and the associated review of the measurement of pension commitments, a retrospective correction was made in accordance with IAS 8.41. In the previous year, the pension obligation was calculated on the basis of the actuarial survey, without taking into account a proportional reduction in the claim based on the ratio between the duration of service to the company on reaching the age limit, and the service years actually completed before leaving the company.

The correction had the following effects:

| <b>Consolidated balance sheet</b> (€ thousand)                      | 30.09.2019 | 01.10.2018 |
|---|------------|------------|
| Retained earnings   | +1,705     | +1,386     |
| Total equity  | +1,705     | +1,386     |
| Provisions for post-employment benefits for employees (non-current) | -1,705     | -1,386     |
| Total liabilities   | -1,705     | -1,386     |

| <b>Statement of comprehensive income</b> (€ thousand)                  | 01.10.2018 – 30.09.2019 |
|--|-------------------------|
| Social security and post-employment benefit costs (personnel expenses) | -27                     |
| Total EBITDA   | -27                     |
| Total operating result (EBIT)  | -27                     |
| Total pretax loss for the reporting period                             | -27                     |
| Deferred tax expense/income  | 0                       |
| Total net loss for the reporting period                                | -27                     |
| Other comprehensive income   | +346                    |
| Consolidated total comprehensive income                                | +319                    |

The earnings adjustments are exclusively attributable to the shareholders of BRAIN AG; non-controlling shareholders are not affected.

Undiluted (basic) and diluted earnings per share for the 2018/19 financial year reported no significant change.

In the consolidated statement of cash flows for the 2018/19 financial year, the result for the period after tax decreased by € 27 thousand, and the change in net pension provisions recognized in profit or loss increased by € 27 thousand. As a consequence, gross cash flow and all other items in the cash flow statement remained unchanged.

The disclosures in the notes to the financial statements relate to the adjusted amounts. This especially applies to the information on pension obligations (section "(5) Personnel expenses") and on Management Board compensation (section "Related party disclosures").

### Measurement of put option liabilities

In connection with the measurement of put option rights for the acquisition of minority interests in the Biocatalysts Group, a retrospective correction in the meaning of IAS 8.41 was applied. In the past, the option liability was measured applying the 2022/2023 planning year rather than the 2021/22 planning year, contrary to the contractual provision.

The correction had the following effects:

| Consolidated balance sheet (€ thousand) | 30.09.2019 | 01.10.2018 |
|---|------------|------------|
| Capital reserves                        | +363       | +363       |
| Retained earnings                       | +1,024     | +1,622     |
| Other reserves                          | -11        | -15        |
| Total equity                            | +1,376     | +1,970     |
| Financial liabilities (non-current)     | -1,376     | -1,970     |
| Total liabilities                       | -1,376     | -1,970     |

| Statement of comprehensive income (€ thousand) | 01.10.2018 – 30.09.2019 |
|--|-------------------------|
| Finance costs                                  | -598                    |
| Total pretax loss for the reporting period     | -598                    |
| Total net loss for the reporting period        | -598                    |
| Other comprehensive income                     | -11                     |
| Consolidated total comprehensive income        | -609                    |

The earnings adjustments are exclusively attributable to the shareholders of BRAIN AG; non-controlling shareholders are not affected.

Undiluted (basic) and diluted earnings per share for the 2018/19 financial year reduced by € -0.03 as a consequence of these changes.

In the consolidated statement of cash flows for the 2018/19 financial year, the net result for the period after tax decreased by € 598 thousand, and other non-cash expenses and income increased by € 598 thousand. As a consequence, gross cash flow and all other items in the cash flow statement remained unchanged.

The disclosures in the notes to the financial statements relate to the adjusted amounts.



**Cumulative effect:**

The cumulative effect of the correction arising from the above is as follows:

| <b>Consolidated balance sheet</b> (€ thousand)                      | 30.09.2019 | 01.10.2018 |
|---|------------|------------|
| Capital reserves  | +363       | +363       |
| Retained earnings   | +2,729     | +3,008     |
| Other reserves  | -11        | -15        |
| Total equity  | +3,081     | +3,356     |
| Provisions for post-employment benefits for employees (non-current) | -1,705     | -1,386     |
| Financial liabilities (non-current)                                 | -1,376     | -1,970     |
| Total liabilities   | -3,081     | -3,356     |

| <b>Statement of comprehensive income</b> (€ thousand)                  | 01.10.2018 – 30.09.2019 |
|--|-------------------------|
| Social security and post-employment benefit costs (personnel expenses) | -27                     |
| Total EBITDA   | -27                     |
| Total operating result (EBIT)  | -27                     |
| Finance costs  | -598                    |
| Total pretax loss for the reporting period                             | -625                    |
| Total net loss for the reporting period                                | -625                    |
| Other comprehensive income   | +335                    |
| Consolidated total comprehensive income                                | -290                    |

## II. Basis of the consolidated financial statements

### Consolidation methods

Business combinations are accounted for applying the acquisition method, under which the carrying amount of the investments is eliminated against the parent's share of the subsidiaries' equity on the acquisition date. The acquisition date is the date on which acquirer gains control of the acquiree.

The consideration transferred for an acquisition is calculated at the acquisition-date fair value of the assets acquired, equity instruments issued, and liabilities incurred or assumed. It also includes the fair values of those recognized assets or liabilities resulting from a contingent consideration arrangement.

Any contingent considerations are measured at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as an asset or a liability are measured in accordance with IFRS 9 with any resultant gain or loss for the reporting period recognized in the result for the period. Contingent consideration classified as equity is not remeasured and its subsequent settlement is recognized directly in equity.

Identifiable assets and liabilities are recognized at fair value. For each corporate acquisition, the Group decides on an individual basis whether non-controlling interests in the acquired company are to be recognized at fair value, or based on the proportional interest in the acquiree's remeasured net assets.

Acquisition-related costs are expensed when they are incurred.

Goodwill is recognized as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the net assets. Any negative difference is recognized directly in profit or loss.

On the basis of written put options, non-controlling shareholders of subsidiaries have the right to tender non-controlling interests to BRAIN AG. In other words, BRAIN AG has a contractual obligation upon exercise of its own equity instruments to purchase with delivery of cash. In the first step, a review must be conducted as to whether the arrangement of the put option agreement, taking all other aspects into consideration, substantiates a current power of disposal (hereinafter referred to as "present ownership").

Where present ownership exists, BRAIN AG applies the anticipated purchase method and recognizes a financial liability pursuant to IAS 32.23. In the case of the anticipated acquisition method, accounting occurs always and independently of the specific structure of the options assuming that a (constructive) acquisition of the non-controlling interest by the controlling shareholder has already occurred. No non-controlling interests are reported for shares included in the option. The liability is recognized at fair value with changes recognized through profit or loss.

If present ownership does not exist, BRAIN AG recognizes the non-controlling interest in full, reporting the entire non-controlling interest in the statement of comprehensive income or under balance sheet equity. The liability is then recognized as a liability at fair value on the

agreement date, with a simultaneous reduction in the capital reserve. Future fair value changes are recognized in profit or loss.

Transactions with non-controlling interests without loss of control are recognized as transactions with the Group's owners acting in their capacity as owners. The difference between the fair value of the consideration paid and the acquired interest in the carrying amount of the subsidiary's net assets arising from the acquisition of a non-controlling interest is recognized in equity. Gains and losses arising from the disposal of non-controlling interests are also recognized in equity.

Intragroup profits and losses, revenues, income and expenses, as well as receivables and payables between companies included in the scope of consolidation are eliminated.

The income tax effects of consolidation entries are reflected through recognizing deferred taxes.

### Consolidation scope

All subsidiaries are included in the consolidated financial statements of BRAIN AG. Subsidiaries are companies that BRAIN AG controls. BRAIN AG controls an investee when it has the power of disposal over the company, a risk exposure exists through, or rights to variable returns exist from, its arrangement in the investee, and the Group has the ability to use its power of disposal over the investee in a manner such that the amount of the variable returns of the investee is affected. The consolidation of an investee commences on the date on which the Group obtains control of the company. It ends when the Group loses control of the investee.

In addition to BRAIN AG, the following subsidiaries were included in the consolidated financial statements for the period ended 30 September 2020:

| Name and domicile of the company                            | 30.09.2020  | 30.09.2019 |
|---|-------------|------------|
| AnalytiCon Discovery GmbH, Potsdam, Germany                 | 100.0%*     | 99.7%****  |
| AnalytiCon Discovery LLC, Rockville MD, USA                 | 100.0%***** | 99.7%***** |
| BRAIN Capital GmbH, Zwingenberg, Germany                    | 100.0%      | 100.0%     |
| L.A. Schmitt Chem. Kosm. Fabrik GmbH, Ludwigsstadt, Germany | 100.0%      | 100.0%     |
| MEKON Science Networks GmbH, Eschborn, Germany              | 100.0%      | 100.0%     |
| WeissBioTech GmbH, Ascheberg, Germany                       | 100.0%**    | 75.3%***   |
| WeissBioTech France S.A.R.L., Chanteloup-en-Brie, France    | 100.0%***** | 75.3%***** |
| BRAIN US LLC, Rockville MD, USA                             | 100.0%      | 100.0%     |
| BRAIN UK II Ltd., Cardiff, UK                               | 100.0%      | 100.0%     |
| BRAIN UK Ltd., Cardiff, UK                                  | 72.3%****   | 72.3%****  |
| Biocatalysts Ltd., Cardiff, UK                              | 65.5%****   | 65.5%****  |
| Biocatalysts Inc., Dover, USA                               | 65.5%****   | 65.5%****  |

\* Increase due to the acquisition of the remaining non-controlling interests (0.3%) in AnalytiCon Discovery GmbH.

\*\* Increase due to the acquisition of the outstanding non-controlling interests (24.7%).

\*\*\* Included by way of full consolidation applying the anticipated acquisition method.

\*\*\*\* Indirect interests.

\*\*\*\*\* The remaining interests are to be classified as debt capital due to the non-controlling interests' existing termination rights.

The interests in AnalytiCon Discovery GmbH and AnalytiCon Discovery LLC increased as a consequence of the exercise of put option rights by former minority shareholders. The interests in WeissBioTech GmbH and WeissBioTech France S.A.R.L. increased as a consequence of the acquisition of the outstanding non-controlling interests (24.7%). Financial liabilities and other provisions have already been recognized and formed in the past for both put options.

On 30 June 2020, BRAIN AG acquired the outstanding non-controlling interests (24.7%) in WeissBioTech GmbH from company founder Hans de Bie with effect from 1 July 2020. As the interests had already been included in previous years applying the anticipated acquisition method, the exercise of the put option had no effect on full consolidation.

### Change in the consolidation scope

No changes in the scope of consolidation occurred in the current financial year.

### Changes in the previous year

#### **Disposal of the entire interest in Monteil Cosmetics International GmbH**

On 30 June 2019, BRAIN AG concluded an agreement with Wilde Cosmetics GmbH, Oestrich-Winkel, concerning the disposal of the entire 68.3% interest held by BRAIN AG in the loss-making company Monteil Cosmetics International GmbH. The aim of the divestiture was to relieve the BRAIN Group financially and in terms of capacity so that it can focus fully on the further expansion of its B2B business.

The disposal has led to a goodwill impairment charge of € 1.8 million. The details relating to the impairment are explained in more detail in the section Notes to the consolidated statement of comprehensive income, in sections "Impairment tests" and "(12) Intangible assets". Furthermore, the disposal did not have any significant effect on earnings.

The following table shows the assets and liabilities as of the disposal date.

#### **Assets and liabilities as of the disposal date**

| € thousand                         | 30.06.2019   |
|------------------------------------|--------------|
| Intangible assets                  | 31           |
| Property, plant and equipment      | 34           |
| Inventories                        | 770          |
| Cash and cash equivalents          | 111          |
| Miscellaneous assets               | 358          |
| <b>Total assets</b>                | <b>1,303</b> |
| Provisions                         | 39           |
| Trade payables                     | 123          |
| Financial liabilities <sup>1</sup> | 1,054        |
| Other liabilities                  | 137          |
| <b>Total liabilities</b>           | <b>1,352</b> |
| Net assets                         | -48          |

<sup>1</sup> Financial liabilities include a liability to BRAIN AG, which was not previously reported on the consolidated balance sheet as Monteil Cosmetics International GmbH was included in the scope of consolidation.

### **Equity-accounted investments**

Equity-accounted investments are associates over whose financial and business policy decisions BRAIN AG can exercise significant influence. Significant influence is presumed to exist if BRAIN AG directly or indirectly holds a minimum of 20% and a maximum of 50% of the voting rights.

Under the equity method, the investment is initially recognized at cost and subsequently adjusted to reflect post-acquisition changes in the proportionate interest of BRAIN AG in the investee's net assets. Any share of the investee's losses that exceeds the carrying amount of the investment (where appropriate, including any other long-term interests that form part of the net investment in the investee) is not recognized unless a legal or constructive payment obligation exists. Any goodwill recognized is reported as a component of the value of the interest in the associate. Unrealized intra-group profits or losses arising from transactions between BRAIN AG and the associate are eliminated proportionately in the same way as consolidation adjustments.

If objective evidence of impairment exists, the carrying amount of the equity-accounted investment is compared with its recoverable amount in the course of the impairment test. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the amount of the difference. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the amount of the difference.

Enzymicals AG, Greifswald, and SolasCure Ltd. were included as equity-accounted investments in the consolidated financial statements for the period ending 30 September 2020. The balance sheet date at the end of a calendar year (Enzymicals AG) or on 30 June (SolasCure Ltd.) differs from the balance sheet date of BRAIN AG. BRAIN AG holds 24.10% (previous year: 24.10%) of the voting rights in Enzymicals AG, and 45.58% (previous year: 45.81%) of the voting rights in SolasCure Ltd. On 19 March 2020, BRAIN AG participated in a capital increase at SolasCure Limited. The capital increase amounted to € 1.9 million and led to the aforementioned change in the interest held.

## **III. Accounting policies**

### **Basis for the preparation of the financial statements**

The consolidated financial statements have been prepared on the assumption that the company constitutes a going concern based on historical purchase and manufacturing costs, limited by the measurement of financial assets and financial liabilities at fair value through profit or loss.

Where indications exist of potential value impairment (so-called triggering events), a corresponding review is conducted based on the recoverable amount. As part of such impairment tests, fair values are also taken into consideration to calculate the lower value limit for individual assets. Valuation surveys for land and buildings, among other inputs, can also be applied in this context. If the carrying amount exceeds the recoverable amount, impairment losses are recognized against the assets to write them down to their recoverable amount.

### Use of assumptions and estimates

In the financial statements, estimates and assumptions have to be made to a certain extent that affect the level and reporting of assets and liabilities, expenses and income, and contingent liabilities. All estimates and assumptions are continuously reassessed and are based on historical experience and other factors, including expectations of future events that are believed to be appropriate under the given circumstances.

Assumptions and estimates relate in particular to:

- evaluating the capitalization of development expenditures (no development costs were capitalized in the financial year under review, and none were capitalized in the previous year);
- the (non-) capitalization of deferred taxes relating to tax loss carryforwards;
- measuring the useful life of intangible assets;
- the recoverability of recognized goodwill;
- the measurement and reporting of put options for the acquisition of non-controlling interests (in particular with regard to the exercise dates. See also "Valuation risks connected with foreign currency put option agreements" in this document);
- the measurement of share-based compensation schemes;
- the determination of the transaction price and the date of revenue recognition according to IFRS 15;
- the determination of the amount of impairment of trade receivables in accordance with IFRS 9.

The key assumptions and inputs for the estimates made by management are explained in the disclosures on the respective line items. The resulting amounts may differ from the actual amounts.

### Adjustments to earnings

The following table shows the reconciliation of reported EBITDA to adjusted EBITDA, excluding the aforementioned effects and expenses as presented in the table.

| € thousand   | 2019/20       | 2018/19       |
|--|---------------|---------------|
| <b>EBITDA, including:</b>  | <b>-3,876</b> | <b>-2,497</b> |
| Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH                       | 0             | -35           |
| Personnel expenses from share-based payment components   | -629          | -266          |
| Personnel expenses in connection with the realignment of the Management Board                        | -692          | 0             |
| One-off support payment to employees to mitigate additional burdens caused by the coronavirus crisis | -138          | 0             |
| Other operating expenses in connection with the realignment of the Management Board                  | -177          | 0             |
| Other operating expenses related to M&A transactions and the integration of acquired businesses      | -222          | -27           |
| <b>Adjusted EBITDA</b>   | <b>-2,018</b> | <b>-2,167</b> |

## Segment reporting

The Management Board, as the chief operating decision maker, assesses opportunities and risks and allocates the operating segments' resources. The segmentation as well as the selection of the indicators presented is realized in accordance with the internal control and reporting systems (the "management approach"). The segment information is prepared applying the same accounting standards as described in the notes to the consolidated financial statements.

Based on monitoring and control by the Management Board, only two segments have been identified, for which further aggregation is not possible due to their differing product and service orientation.

The business activities at BRAIN are defined according to the operating segments "BioScience" and "BioIndustrial". The BioIndustrial segment consists mainly of its industrially scaled products business which focuses on enzyme and cosmetic products. At Management Board level, the individual segments' business performance is measured on the basis of revenue, and their profitability is measured based on adjusted EBITDA. The Management Board performs and approves planning at this level. Both areas have a different strategic orientation and require different marketing and business development strategies.

The BioScience segment mainly includes research and development business with industrial partners, and the company's own research and development. Marketing the company's own products and developments with external partners also forms part of this operating segment.

The BioIndustrial segment mainly consists of its industrially scaled products business which focuses on enzyme and cosmetic products.

The allocation of adjustments to the segments is generally made in the segment in which the costs to be adjusted were incurred. Personnel expenses from an employee share scheme at AnalytiCon Discovery GmbH were attributable in the previous financial year exclusively to the BioScience segment. As in the previous year, in the 2019/20 financial year personnel expenses for share-based compensation components related to both the BioScience and the BioIndustrial segments and were adjusted accordingly in both segments. The personnel expenses in connection with the realignment of the Management Board and the personnel expenses in connection with the one-time support payment to employees to mitigate the additional burdens resulting from the coronavirus crisis were attributable exclusively to the BioScience segment in the 2019/20 financial year.

Other operating expenses in connection with expenses relating to the realignment of the Management Board were attributable exclusively to the BioScience segment in the 2019/20 financial year, and were adjusted accordingly. Other operating expenses in connection with the integration of acquired companies related exclusively to the BioScience segment in both the previous financial year and the financial year under review, and were adjusted accordingly.

Sales revenues generated between the segments are realized on standard market terms. Total operating performance generated with external customers is reported to the Management Board based on figures as applied in the income statement.

The following overview presents the segment results:

<sup>2</sup> Research and development grant revenue.

<sup>3</sup> Changes in inventories of finished goods and work in progress.

| € thousand  | BioScience    |               | BioIndustrial |               |
|---|---------------|---------------|---------------|---------------|
|   | 19/20         | 18/19         | 19/20         | 18/19         |
| Revenue generated with other segments   | 35            | 10            | 50            | 33            |
| Revenue generated with external customers   | 13,195        | 12,182        | 25,030        | 26,378        |
| <b>Total revenue</b>  | <b>13,230</b> | <b>12,192</b> | <b>25,081</b> | <b>26,411</b> |
| R&D grant revenue <sup>2</sup>  | 687           | 1,201         | 152           | 285           |
| Changes in inventories <sup>3</sup>   | -222          | 39            | -157          | -93           |
| Other income  | 267           | 537           | 294           | 757           |
| <b>Total operating performance</b>  | <b>13,962</b> | <b>13,969</b> | <b>25,371</b> | <b>27,360</b> |
| Cost of materials   | -3,521        | -4,205        | -13,184       | -13,220       |
| Personnel expenses  | -13,011       | -11,385       | -6,136        | -6,256        |
| (of which from the employee share scheme at AnalytiCon Discovery GmbH)  | 0             | 35            | 0             | 0             |
| (of which costs in connection with the realignment of the Management Board)                                     | 692           | 0             | 0             | 0             |
| (of which one-off support payment to employees to mitigate additional burdens caused by the coronavirus crisis) | 138           | 0             | 0             | 0             |
| (of which from share-based payments)  | 449           | 200           | 180           | 66            |
| Other expenses  | -3,650        | -3,574        | -3,702        | -5,146        |
| (of which acquisition and integration costs)  | 222           | 27            | 0             | 0             |
| of which costs in connection with the realignment of the Management Board)                                      | 177           | 0             | 0             | 0             |
| <b>EBITDA</b>   | <b>-6,219</b> | <b>-5,194</b> | <b>2,348</b>  | <b>2,739</b>  |
| <b>Adjusted EBITDA</b>  | <b>-4,541</b> | <b>-4,931</b> | <b>2,528</b>  | <b>2,805</b>  |
| Depreciation and amortization   | -1,344        | -1,187        | -3,008        | -3,515        |
| <b>EBIT</b>   | <b>-7,564</b> | <b>-6,382</b> | <b>-660</b>   | <b>-776</b>   |
| Finance income  |               |               |               |               |
| Result from equity-accounted investments  |               |               |               |               |
| Finance costs   |               |               |               |               |
| <b>Result before taxes</b>  |               |               |               |               |



| Sum segments  |               | Consolidation |            | Group         |                |
|---------------|---------------|---------------|------------|---------------|----------------|
| 19/20         | 18/19         | 19/20         | 18/19      | 19/20         | 18/19          |
| 86            | 43            | -86           | -43        | 0             | 0              |
| 38,225        | 38,560        | 0             | 0          | 38,225        | 38,560         |
| <b>38,311</b> | <b>38,603</b> | <b>-86</b>    | <b>-43</b> | <b>38,225</b> | <b>38,560</b>  |
| 839           | 1,486         | 0             | 0          | 839           | 1,486          |
| -378          | -54           | 0             | 0          | -378          | -54            |
| 561           | 1,293         | -9            | -55        | 552           | 1,238          |
| <b>39,333</b> | <b>41,330</b> | <b>-95</b>    | <b>-98</b> | <b>39,238</b> | <b>41,231</b>  |
| -16,705       | -17,425       | 58            | 32         | -16,647       | -17,393        |
| -19,147       | -17,641       | 0             | 0          | -19,147       | -17,641        |
| 0             | 35            | 0             | 0          | 0             | 35             |
| 692           | 0             | 0             | 0          | 692           | 0              |
| 138           | 0             | 0             | 0          | 138           | 0              |
| 629           | 266           | 0             | 0          | 629           | 266            |
| -7,352        | -8,720        | 32            | 26         | -7,320        | -8,694         |
| 222           | 27            | 0             | 0          | 222           | 27             |
| 177           | 0             | 0             | 0          | 177           | 0              |
| <b>-3,871</b> | <b>-2,455</b> | <b>-5</b>     | <b>-40</b> | <b>-3,876</b> | <b>-2,496</b>  |
| <b>-2,013</b> | <b>-2,126</b> | <b>-5</b>     | <b>-40</b> | <b>-2,018</b> | <b>-2,167</b>  |
| -4,353        | -4,702        | 0             | 0          | -4,353        | -4,702         |
| <b>-8,224</b> | <b>-7,157</b> | <b>-5</b>     | <b>-40</b> | <b>-8,229</b> | <b>-7,198</b>  |
|               |               |               |            | 1,546         | 940            |
|               |               |               |            | -2,389        | -1,788         |
|               |               |               |            | -872          | -3,064         |
|               |               |               |            | <b>-9,944</b> | <b>-11,111</b> |

Revenue derived from the following revenue sources:

| € thousand                   | 2019/20       | 2018/19       |
|------------------------------|---------------|---------------|
| Collaborative Business       | 13,195        | 12,182        |
| <b>BioScience</b>            | <b>13,195</b> | <b>12,182</b> |
| Enzymes & Bio-based Products | 22,679        | 22,358        |
| Cosmetics                    | 2,352         | 4,020         |
| <b>BioIndustrial</b>         | <b>25,030</b> | <b>26,378</b> |
| <b>Group total</b>           | <b>38,225</b> | <b>38,560</b> |

The following table presents revenue by geographic region:

| € thousand       | 2019/20 | 2018/19 |
|------------------|---------|---------|
| Germany          | 8,905   | 9,119   |
| Abroad           | 29,321  | 29,442  |
| of which: USA    | 6,881   | 7,576   |
| of which: France | 4,946   | 4,867   |
| of which: UK     | 4,534   | 4,393   |

Revenues are allocated to countries according to the destination of the products or services. Revenues in other countries were not material in comparison to total revenues and therefore these revenues are not shown separately.

The following table shows intangible assets and property, plant and equipment by geographic region, according to the respective Group companies' locations. If assets in an individual foreign country are material, they are disclosed separately:

| € thousand                    | 30.09.2020    | 30.09.2019    |
|-------------------------------|---------------|---------------|
| Intangible assets             | 13,271        | 15,794        |
| Property, plant and equipment | 24,470        | 17,144        |
| <b>Total</b>                  | <b>37,741</b> | <b>32,938</b> |
| of which: UK                  | 21,034        | 21,117        |
| of which: Germany             | 15,868        | 10,786        |
| of which: USA                 | 838           | 962           |
| of which: France              | 0             | 73            |

No relationships exist with individual customers where revenue is to be categorized as significant in comparison with consolidated revenue.

## Currency translation

### Translation of foreign currency transactions

Cash and cash equivalents as well as receivables and liabilities denominated in foreign currencies are translated at the closing rate. Currency translation differences are recognized in profit or loss. Transactions denominated in foreign currencies are reported applying the currency rate on the date of the respective transaction. The risk assessment of currency exchange rate differences that are recognized through profit or loss occurs on a net basis. The net results from translation differences are immaterial in total.

### Translation of foreign Group companies' financial statements

In the case of foreign Group companies, the functional currency is the respective local currency, as the companies operate independently in financial, business and organizational terms. The foreign companies' assets and liabilities are translated into euros at the closing rate on the reporting date. Income and expenses are translated into euros at the average exchange rates for the year. Equity components are translated at historical exchange rates on the respective acquisition dates from the Group's perspective. The translation difference compared with the closing rates is recognized directly in equity under "Other reserves".

The exchange rates against the euro report the following changes:

| Rate/€ 1 | Country | Closing rate |         | Average rate |         |
|----------|---------|--------------|---------|--------------|---------|
|          |         | 2019/20      | 2018/19 | 2019/20      | 2018/19 |
| GBP      | UK      | 1.0961       | 1.1224  | 1.1389       | 1.1315  |
| USD      | USA     | 0.8541       | 0.9088  | 0.8933       | 0.8865  |

## Revenue recognition

The revenue reported in the consolidated income statement relates to revenue from contracts with customers in accordance with IFRS 15. The BRAIN Group recognizes revenue in accordance with the IFRS 15 transfer of control approach.

Revenue is measured on the basis of the consideration specified in the contract with a customer, taking into account variable consideration such as cash discounts, volume-related rebates and other contractual price reductions. The variable consideration is estimated based on the most probable amount. However, variable consideration is only taken into consideration if it is highly probable that a significant reversal in revenue will not arise once the uncertainty associated with the variable consideration no longer exists. In addition, the determination of the transaction price requires discretionary decisions and estimates in light of uncertainties typical of the sector, which are associated with future milestone and license payments. These discretionary decisions relate to the valuation of the inclusion of milestone payments in the transaction price. Accordingly, milestones are included in the transaction price only if it is highly probable that they will be reached.

Revenue is recognized when control, in other words, the possibility of deriving benefit from the service rendered and of determining its further use, is transferred. This can occur either at a specific time or over a period of time. Revenue is recognized over a period of time if one of the following criteria is met:

- Upon fulfilment by the company, the customer receives the benefit of the service rendered and utilizes it at the same time.
- With its work, the company produces or improves an asset over which the customer has control during the production or improvement.
- With its work, the company generates an asset that cannot be used by the company for other purposes; in doing so, the company has a claim for payment for the services rendered to date and can also expect the contract to be fulfilled as agreed.

If the performance obligation is not fulfilled over a period of time, it is fulfilled at a given point in time. The following factors are considered in order to determine the point in time at on which control is transferred:

- the Group currently has the right to receive payment for the asset;
- the customer has legal ownership of the asset;
- the company has transferred the asset physically (in other words, ownership of the asset);
- the significant risks and rewards entailed in ownership of the asset lie with the customer;
- and
- the customer has accepted the asset.

#### **Sale of goods/products**

Revenue from the sale of products is recognized when control of a promised product is transferred in accordance with Incoterms agreed with customers. This is usually when the delivery has reached the customer.

#### **Rendering of services**

Revenues from rendering services arise mainly from research and development partnerships, and are generated predominantly in the BioScience segment. Related one-off payments (mostly to be paid by customers when agreements are concluded) are analyzed on the date of receipt as to whether they relate to one-off payments for pre-contractual services that transfer to the customer and that are distinct. To the extent that these relate to payments for distinct pre-contractual services, revenue is recognized immediately. R&D revenues are also recognized in the period in which the underlying services are rendered. This is generally to be recognized in accordance with the progress of the transfer of the R&D services by applying the cost-to-cost method, as well as the milestones achieved as at the balance sheet date. The cost-to-cost method is best suited for measuring percentage of completion, as the R&D services' product is realized on the basis of the employees it deploys.

#### **Royalties and license fees**

Revenues from royalties (license agreements) are recognized in the period in which they accrue according to the terms of the underlying contract. As a matter of principle, revenue-based fees are first recognized when the customer realizes the corresponding sales revenues. In the case of licenses, a distinction must be made as to whether the customer acquires with the license a right-of-use (revenue recognition on the basis of a given point in time) or a right-

of-access (revenue recognition over a period of time). One-off prepaid license payments are recognized immediately (revenue recognition based on a given point in time) if the license grants a right-of-use, and the licensed technology is not developed further (static licenses). One-off prepaid license payments are realized over time (revenue recognition over a period of time) if and to the extent that the license grants access rights to the technology, and the licensed technology is developed further (dynamic licenses).

Financing components are separated from the actual performance if they are classified as material. If the period between the time when BRAIN transfers the promised goods or services to the customer and the time when the customer pays for those goods or services is one year or less, no financing component is taken into account. Contractual liabilities are reported as deferred income rather than separately on the balance sheet. Separate disclosure is made in the section "(23) Deferred income".

### **Intangible assets**

Purchased intangible assets are recognized at cost and amortized straight-line over their economic useful life. Cost consists of directly attributable costs. The useful lives and depreciation methods are reviewed each year and modified if necessary. The useful lives applied by the Group are as follows:

|  | Useful life in years |
|--|----------------------|
| Genetic resources  | 2–8                  |
| Software and industrial property rights                            | 2–15                 |
| Customer relationships acquired as part of a corporate acquisition | 8–11                 |
| Technology acquired as part of a corporate acquisition             | 10–12                |

As a consequence of the annual review of useful lives, a two-year longer economic useful life was derived for technology acquired as part acquiring the WeissBioTech Group. This resulted in a € 402 thousand increase in amortization in the year 2019/20 financial year. The remaining useful life as of 30 September 2020 amounts to one year.

### **Research and development**

Research costs are recognized as expenses in the period in which they are incurred. In accordance with IAS 38.53 and IAS 38.57, development expenditures are capitalized if the following criteria are met:

- It is technically feasible for the entity to complete the intangible asset so that it will be available for use or sale.
- The entity intends to complete the intangible asset and use or sell it.
- The entity is able to use or sell the intangible asset.

- How the intangible asset will generate probable future economic benefits can be demonstrated. Inter alia, the entity can substantiate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the intangible asset's utility.
- The availability of adequate technical, financial and other resources to complete development, and use or sell the intangible asset.
- The entity is able to reliably measure the expenditure attributable to the intangible asset during its development.

Not all of these criteria were met in the financial year, so that all expenditure connected with research and development activities was recognized as expenses as incurred.

### **Property, plant and equipment**

Items of property, plant and equipment are measured at cost and depreciated to reflect any wear and tear. The straight-line depreciation method is applied.

The depreciation period is based on the asset's expected useful economic life. Impairment losses and depreciation charges are recognized if no further, or fewer, economic benefits are expected from the asset's continued use or sale. Gains or losses on the disposal of items of property, plant and equipment are calculated by comparing the net disposal proceeds with the asset's carrying amount and recognized in profit or loss in the period in which the asset is derecognized.

Depreciation charges are based mainly on the following useful lives:

|  | Useful life in years |
|--|----------------------|
| Buildings and outdoor facilities                     | 10–50                |
| Vehicle fleet  | 3–6                  |
| Laboratory equipment, operating and office equipment | 1–15                 |

BRAIN AG has applied the new leasing standard IFRS 16 since 1 October 2019. As a lessee, BRAIN AG generally recognizes assets for the rights-of-use of leased assets and lease liabilities for all leases on the balance sheet at the present value of the payment obligations incurred. These items are disclosed separately in the section "Leases" and in the section "(13) Property, plant and equipment".

In the case of assets that are manufactured or otherwise made ready for their intended use or sale over a longer period of time ("qualifying assets"), borrowing costs are capitalized if they can be attributed directly to the asset. No qualifying assets existed in either the reporting period or the prior-year period.

## Impairment tests

Goodwill and other intangible assets with an indefinite or indeterminable useful life are tested at least once annually for impairment. Intangible assets and items of property, plant and equipment with finite or indeterminable useful lives are only tested for impairment if indications exist that the asset has become impaired. An impairment loss is recognized in profit or loss in the consolidated statement of comprehensive income if the asset's recoverable amount, in other words, the higher of its fair value less costs of disposal and its value-in-use, is less than its carrying amount. The recoverable amount is generally determined individually for each asset. If this is not possible, it is determined based on a group of assets representing a cash-generating unit (CGU). An assessment is made at least once annually whether any indication exists that the reason for an impairment loss recognized in prior periods no longer applies or the amount of the impairment has decreased. If this is the case, the asset's recoverable amount is remeasured, and the impairment loss is reversed accordingly (except in the case of goodwill).

The starting point for estimating the recoverable amount of the relevant cash-generating unit for the goodwill impairment tests as at 30 September 2020 is its value-in-use, calculated as the present value of the future net cash flows expected to be generated from the CGU. The estimate is based on the current five-year planning of the relevant company. The last planning year is generally also applied for cash flows beyond the planning period and modified considering further assumptions for the perpetual return, to the extent that specific related indications exist. These plans are based on Management Board estimates about future trends that are described further in the description of the individual cash-generating units. Past data and expected market performance are utilized to calculate values-in-use for the cash-generating units. The values allocated to the significant assumptions are generally in line with external information sources in this context.

The cash generating unit's capital costs are calculated as the weighted average of its equity and debt costs. The capital structure, and equity and debt costs, are based on peer companies from the same sector and are derived from available capital market information.

Significant goodwill existed at the following cash-generating units (CGUs) as at reporting date:

| Cash-generating unit          | 30.09.2020             |  | 30.09.2019             |                                      |
|-------------------------------|------------------------|--|------------------------|--------------------------------------|
|                               | Goodwill<br>€ thousand | Pre-tax cost of capital<br>(WACC) <sup>4</sup> | Goodwill<br>€ thousand | Pre-tax cost of capital <sup>4</sup> |
| Biocatalysts                  | 3,785                  | 7.82 %   | 3,878                  | 8.95 %                               |
| Natural Products<br>Chemistry | 699                    | 8.08 %   | 699                    | 9.32 %                               |

The "Natural Products Chemistry" CGU consists of the goodwill from the acquisition of AnalytiCon Discovery GmbH and its subsidiary AnalytiCon Discovery LLC, and is attributable to the BioScience segment. The "Biocatalysts" CGU consists of the goodwill from the acquisition of Biocatalysts Ltd., including its subsidiary Biocatalysts Inc., and is attributable to the Bio-Industrial segment.

<sup>4</sup> Weighted average total cost of capital rate before tax.

### Biocatalysts

For the Biocatalysts unit, an IAS 36 impairment test was performed again as at 30 September 2020. Planning is based on significant growth in sales revenues and successive margin improvements. As planned, these considerable growth increments would be in line with the significant increases in recent years as well as in the 2019/20 financial year. Continued strong growth is to be achieved by further expanding business relationships with both existing and new customers. Furthermore, an even stronger focus on customer-specific enzymes and proprietary product developments is planned, which should contribute to a further improvement in revenue as well as to a margin improvement. Net cash flows beyond the detailed planning phase were modelled on a terminal growth rate that reflects growth rates derived from current market information (financial year under review: 1.00%, previous year: 1.00%). A value-in-use applying discounted cash flows was calculated based on five-year planning. No impairment was determined in the impairment test on 30 September 2020.

An increase in the weighted average cost of capital by 1.0 percentage points or a reduction in the EBITDA margin in the perpetual return by 2.0 percentage points would also have led to no impairment.

The Management Board assumes that the calculated sensitivities suitably and sufficiently reflect the potential deviations from plan in each case.

### Natural Products Chemistry

Thanks to positive market feedback and its successful performance in recent financial years, the "Natural Products Chemistry" unit in its planning continues to assume significant revenue growth and a positive trend in its EBITDA margin. Net cash flows beyond the detailed planning phase were modelled on a terminal growth rate that reflects growth rates derived from current market information (financial year under review and previous year 1.00%). A value-in-use applying discounted cash flows was calculated based on five-year planning. No impairment was determined in the impairment test on 30 September 2020.

An increase in the weighted average cost of capital by 1.0 percentage points or a reduction in the EBITDA margin in the perpetual return by 2.0 percentage points would have also led to no impairment.

In the previous year, goodwill also consisted of a minor extent of goodwill from the acquisition of the WeissBioTech Group (WeissBioTech GmbH and WeissBioTech France S.A.R.L.) amounting to €11 thousand, which was written off in full in the 2019/20 financial year. The amount was recognized in the income statement under depreciation, amortization and impairment. These impairment losses were attributable to the BioIndustrial segment.

### Impairments in the previous year

On 3 June 2019, the assets and liabilities of Monteil Cosmetics International GmbH were classified as "held for sale" in accordance with IFRS 5 by resolution of the Management Board. Immediately before the disposal group was first classified as "held for sale", the carrying amounts of all assets and liabilities of the disposal group were impairment tested as per IAS 36 in accordance with IFRS 5.18 in conjunction with IAS 36.12 (f).



The intention to sell was taken into account when determining the value-in-use as part of the impairment test, as immediately prior to reclassification this represents the material basis of the management's reasonable and justifiable assumptions regarding the economic conditions that will prevail during the remaining useful life of the assets of the future disposal group.

In this situation, the value-in-use will largely approximate the fair value less costs of disposal, as the value-in-use of an asset held for disposal consists mainly of the net disposal proceeds, and the future cash flows from the continued use of the asset until its disposal are likely to be insignificant (IAS 36.21, in this meaning also IFRS 5.BC32).

In order to determine the fair value less costs of disposal of the disposal group, reference was made to the sale contract with the buyer, and consequently to Level 2 input factors in accordance with IFRS 13. In addition to the purchase price actually paid, the fair value of the disposal group depends to a large extent on a loan receivable from Monteil that was restructured as part of the disposal of the investment. As part of the divestiture, this loan was partly linked to the achievement of certain sales revenue targets in the years 2021 to 2025. A degree of discretion exists in determining the probability of achieving these sales revenue targets. In order to determine the probabilities, recourse was made to Monteil's historical sales revenue growth and existing corporate plans. To this extent, the input factors are to be allocated to Level 3 in accordance with IFRS 3. The revenue-dependent part of the loan was valued at € 148 thousand; the maximum repayment amount is consequently € 300 thousand.

As a consequence of the impairment test as at 30 June 2019, an impairment loss of around € 1.9 million was recognized, of which € 1.8 million is attributable to goodwill and € 0.1 million to other assets. These impairment losses were attributable to the BioIndustrial segment.

## **Inventories**

Raw materials, consumables and supplies as well as unfinished goods and services, are measured at cost. In this context, the weighted average cost method is essentially applied at the lower of cost or market value. In addition to direct costs, production costs include appropriate portions of materials and production overheads. Borrowing costs are not capitalized. Write-downs to a lower net realizable value are applied if necessary.

## **Financial instruments**

Financial instruments refer to all contractual relationships that result in a financial asset for one party and a financial liability or equity instrument for the other party. Financial instruments include both non-derivative and derivative financial instruments.

Financial instruments are classified into three categories on initial recognition:

- At amortized cost (AC)
- At fair value through equity (through reserves) (FVTOCI)
- At fair value through profit or loss (FVTPL).

When financial assets are measured at fair value, income and expenses can be recognized either in full in the profit or loss for the period (FVTPL) or in other comprehensive income (FVTOCI), with or without subsequent reclassification to the income statement.

The classification is determined when the financial asset is first recognized, in other words, when BRAIN becomes a party to the contractual arrangements for the instrument.

A debt instrument that meets the following two conditions is measured at amortized cost:

- Business model condition: The objective of the BRAIN Group's business model is to hold the financial assets in order to collect the contractual cash flows.
- Cash flow condition: The financial asset's contractual terms generate cash flows on specified dates that are solely repayments of principal and interest on the unpaid portion of the principal.

A debt instrument that meets the following two conditions is measured at fair value changes recognized in other comprehensive income and subsequent reclassification to the income statement:

- Business model condition: The objective of the BRAIN Group's business model is achieved by both collecting the contractual cash flows from financial assets and by disposing of financial assets.
- Cash flow condition: The financial asset's contractual terms generate cash flows on specified dates that are solely repayments of principal and interest on the unpaid portion of the principal.

All other debt instruments are measured at fair value with value changes recognized in profit or loss for the period (FVTPL). All equity instruments held are recognized at fair value on the balance sheet. Value changes are recognized in the result for the period. If an equity instrument is not held for trading, BRAIN may make an irrevocable decision upon initial recognition to measure it at fair value, with value changes recognized in other comprehensive income. Subsequent reclassification to the income statement is excluded in this case.

Financial assets are generally only derecognized if no prospect of recovery exists, such as if enforcement has been unsuccessful, insolvency proceedings have been discontinued for lack of assets, or the debt is now statute-barred. No further enforcement actions are taken subsequently. Financial assets whose terms were amended because they would otherwise have been overdue or impaired did not exist in the past financial year (as in the previous year).

Debt instruments are derecognized from the consolidated balance sheet when all risks and rewards have been transferred and the related receipt of payment is assured. If not all risks and rewards are transferred, the debt instruments are derecognized when control of the debt instrument is transferred.

### **Impairment of financial assets**

Impairment losses on debt instruments held by the company that are not to be measured at fair value through profit or loss are based on the premise that expected losses must be recognized. These are recorded at the following amounts:

- the “expected 12-month loss” (present value of expected payment defaults resulting from possible default events within the next 12 months after the reporting date) or
- the total loss expected over the remaining term of the instrument (present value of expected payment defaults arising from all possible default events over the financial instrument’s remaining term).

For trade receivables with and without a significant financing component, contract assets and leasing receivables, the need for impairment is always determined on the basis of the losses expected over the entire term. For all other instruments, impairments are only determined on the basis of the losses expected over the entire term if the credit risk has increased significantly since initial recognition. The assessment as to whether the risk of default has increased significantly is based on an increase in the probability of default since the date of acquisition. Macroeconomic forecasts (such as in relation to GDP) are also taken into consideration in this analysis. This did not lead to any further significant effects, thereby dispensing with the need to adjust an impairment loss.

Otherwise, the impairment losses are determined solely on the basis of the expected losses that would result from a loss event occurring within 12 months of the reporting date. In this case, loss events that may occur later than 12 months after the balance sheet date are consequently not taken into consideration.

A financial asset exhibits objective evidence of impairment if one or more events have occurred that have a significant effect on the cash flows that the financial asset is expected to generate in the future. This includes observable data that has become known about subsequent events:

- significant financial difficulties on the part of the issuer or debtor;
- a breach of contract such as default or delay in interest or principal payments;
- concessions that the lender makes to the borrower for financial or contractual reasons relating to the borrower’s financial difficulties; but would not otherwise grant;
- an increased probability that the borrower will enter bankruptcy or other reorganization proceedings;
- the disappearance of an active market for this financial asset due to financial difficulties;
- the purchase or issue of a financial asset with a high discount reflecting the credit losses incurred.

A value adjustment table is applied for trade receivables, which determines the losses expected over the remaining term as a flat-rate percentage depending on the length of the overdue period. Forward-looking macroeconomic information is not taken into consideration in this context, as the Group believes that this does not have any significant impact on the losses expected over the remaining term. Irrecoverable receivables are written off at the time when the Group becomes aware that the receivable will probably be uncollectible.

### **Government grants**

Monetary grants and other support payments for research and development projects are reported separately in the statement of comprehensive income as “research and development grant revenue”.

According to IAS 20, these government grants are only recognized at fair value if satisfactory evidence exists that the grant conditions are met and the grants will be paid. Grants are recognized in profit and loss in the reporting period during which the costs related to the respective grants were incurred. Receivables from grants that have not yet been settled are reported as trade receivables, as the underlying research and development activities form a significant element of the range of work and service of the BRAIN Group.

Investment subsidies and grants for assets are not deducted from the costs of acquiring the respective assets, but are instead recognized as deferred income. Such deferred income is recognized as income in line with the depreciation or amortization of the corresponding assets, and is reported in the statement of comprehensive income under other income.

### **Equity**

To classify financial instruments that are not to be settled in BRAIN AG equity instruments as either equity or debt capital, it is essential to assess whether a payment obligation exists for BRAIN AG. A financial liability always exists if BRAIN AG is not entitled to avoid rendering liquid assets or realizing an exchange in the form of other financial assets in order to settle the obligation.

Costs directly attributable to the issuance of new shares are shown in equity as a deduction from the income received from the issue. If a reporting date occurs between the date on which the costs are incurred and the actual performance of the equity transaction, in other words, an inflow of issue proceeds, the deductible transaction costs accruing in the reporting period are initially recognized under assets as prepaid items, and are not offset against equity (capital reserves) until the capital increase is recognized on the balance sheet.

## **Provisions**

Provisions are recognized for all identifiable present obligations to third parties arising from past events, whose settlement is expected to result in an outflow of resources and whose amount can be reliably estimated. They are recognized at the expected settlement amount. If the outflow of resources is expected to occur at a date after the year following the reporting period, the obligations are recognized at their present value. In the case of a lower level of discounting, the interest effects are recorded in finance costs.

## **Occupational pension scheme/employee benefits**

The occupational pension scheme at BRAIN includes both defined contribution plans as well as defined benefit plans.

In addition to the statutory pension insurance systems, occupational pensions at BRAIN AG, AnalytiCon Discovery GmbH, Biocatalysts Ltd. and WeissBioTech GmbH utilize direct insurance policies and payments into pension funds and private pension schemes (direct contribution commitment). Furthermore, defined benefit pension plans exist for one former member of the Management Board of BRAIN AG and one member who left the Management Board during the financial year. These schemes are managed and funded through an occupational pension plan (Unterstützungskasse) (direct benefit commitment).

Payments for defined contribution pension schemes are expensed under personnel expenses if the employees have rendered the work entitling them to said contributions. Contributions to government pension plans are treated in the same way as payments for defined contribution plans.

A defined contribution plan exists in Germany for all employees in the Group companies within the framework of the German statutory pension insurance into which the employer must pay. The amount to be paid is determined according to the current applicable contribution rate of 9.35% (employer contribution) with regard to the employee compensation subject to compulsory pension insurance. In France, the employer contribution amounts to 8.55% in relation to compensation with mandatory pension up to € 3,218, and 1.85% in relation to the total salary. In the USA, the employer contribution to social security is 6.2% in relation to annual employee compensation of € 127,200. In addition, BRAIN offers a company pension scheme in the form of deferred compensation without topping-up contributions by the employer.

A defined benefit plan in the form of benefit commitments by the company exists for one former Management Board member as well as for one Management Board member who has left the company. The benefit entitlements consist of an old-age pension from the age of 65 as well as surviving dependents' and invalidity benefits. To reinsure pension commitments, the company pays contributions to an external occupational pension plan. In turn, the occupational pension plan has taken out pension liability insurance cover. The claims under the pension liability insurance have been assigned to the occupational pension plan beneficiaries.

The pension obligation is measured applying actuarial methods in accordance with IAS 19. The calculations are essentially based on statistical data relating to mortality and disability rates, assumptions about the discount rates as well as expected return on plan assets. The determination of the interest rate and the expected plan assets are based on yields on AA-rated corporate bonds corresponding to the respective term, or alternatively, yields on respective government bonds. As part of accounting, the fair value of plan assets is deducted from the present value of the benefit obligation for pensions. The valuation of the benefit obligation for pensions and the plan assets is undertaken annually by means of actuarial reports as at the reporting date.

Revaluations that resulted in particular from the adjustment of actuarial assumptions are recognized directly in equity (retained earnings) via other comprehensive income without affecting the operating result.

#### **“CoPerBo” Corporate Performance Bonus for employees of BRAIN AG**

In the 2015/16 financial year, a performance-based compensation scheme was set up for BRAIN AG employees. This scheme was continued in the financial year under review, and commits an annual bonus to BRAIN AG staff depending on their respective basic salary received in the financial year and certain development factors. The bonus level is significantly affected in this context by three development factors, each of which affect one third of the bonus payable. All employees of BRAIN AG with separate target agreements are not entitled to this program.

The first factor is the year-to-year percentage change in the total operating performance of the BioScience segment in the respective financial year. The second factor is the change in the adjusted EBITDA of the BioScience segment. A change in these factors of one million is defined as 10%. The third factor is the change in the weighted average share price over the financial year. The bonus payments for the financial year elapsed are always scheduled to occur in the January of the subsequent year, as the audited segment information is available on that date. The payout range is fixed at between 0% and 30% of the basic salary paid to an employee. Only 10 percentage points may result from each factor.

Segment information from this set of financial statements was utilized to calculate the level of the obligation. The provision's effect on adjusted EBITDA was taken into account through applying an iterative calculation.

No obligation existed for the 2019/20 financial year. A liability of € 198 thousand was formed as at 30 September 2019. The periodic expense for the 2018/19 financial year amounted to € 198 thousand.

#### **Share-based payment and other long-term employee benefits**

In the 2019/20 financial year, the following share-based employee compensation existed:

##### **Employee Stock Ownership Program (ESOP)**

In order to provide incentives and to retain managers and employees of BRAIN AG long-term, an employee stock ownership program (ESOP 2017/18) for the 2017/18 came into effect on 8 June 2018, and an employee stock ownership program (ESOP 2018/19) for the 2017/18 financial

year came into effect on 12 March 2019. Under the latter, further options were issued in the 2019/20 financial year on 9 March 2020, as scheduled. Managers and employees as well as the Management Board members of BRAIN AG participate in all ESOPs.

The ESOP 2017/18 stock option program is based on the AGM resolution of 8 July 2015 to set up a stock option program and to create conditional capital 2015/II. The ESOP 2018/19 stock option program is based on the AGM resolution of 7 March 2019 to set up a stock option program and create conditional capital 2019/I.

As part of exercise, one option entitles to the purchase of one share in the company at the so-called exercise price. The exercise price corresponds to the average of the share price 10 trading days prior to the contractual grant date, which in this case falls on 8 June 2018 (ESOP 2017/18), 12 March 2019 (ESOP 2018/19) and 9 March 2020 (ESOP 2018/19). The exercise price of the options is € 20.67 (ESOP 2017/18), € 10.64 (ESOP 2018/19) and € 9.11 per share (ESOP 2019/20) for issue on 9 March 2020. Along with the share price performance target (performance condition), the exercising of options is also conditional upon the respective beneficiary remaining at the company (service condition). Taking fulfilment of both the service and performance conditions into account, the options can be exercised at the earliest at the end of four years after the grant date (waiting period). The exercise period amounts to four years after the end of the four-year waiting period. From the ESOP 2018/19 onwards, a cap amount is also applied to the Management Board members' options, which limits the options' maximum value. In the ESOP 2017/18, such a cap amount was only provided for Management Board members.

The following overview presents the options granted, expired, forfeited and exercised in the financial year under review per type:

|                                     | Options for managers<br>and employees | Options for Manage-<br>ment Board members |
|-------------------------------------|---------------------------------------|---|
| <b>Outstanding as at 30.09.2019</b> | <b>197,600</b>                        | <b>240,000</b>                            |
| Granted in the financial year       | 165,000                               | 100,000 <sup>5</sup>                      |
| Expired in the financial year       | 0                                     | 0   |
| Forfeited in the financial year     | 0                                     | 180,000 <sup>6</sup>                      |
| Exercised in the financial year     | 0                                     | 0   |
| <b>Outstanding as at 30.09.2020</b> | <b>362,600</b>                        | <b>160,000</b>                            |
| Exercisable as at 30.09.2020        | 0                                     | 0   |

The options are to be recognized in accordance with the provisions of IFRS 2 "Share-based Payment", and are to be classified as equity-settled share-based payment transactions.

The volatility applied over the remaining option term reflects historical volatility derived from peer group data and appropriate to the remaining term. When the options were issued in 2020 for the 2019/20 ESOP, the grant date fell on 9 March 2020.

<sup>5</sup> Relates to Mr. Adriaan Moelker (CEO since 1 February 2020).

<sup>6</sup> Relates in equal measures to Dr. Jürgen Eck (CEO until 31 December 2019), Mr. Roedder (CBO until 6 July 2020) and Mr. Bender (CFO until 30 September 2020)

The following parameters were applied as at the measurement date:

| Parameter                               | Options for Management Board members, managers and employees (ESOP 2019/20): Issued in the 2019/20 financial year |
|---|---|
| Measurement date                        | 09.03.2020  |
| Remaining term (in years)               | 8   |
| Share price on the measurement date (€) | 8.65  |
| Exercise price (€)                      | 9.11  |
| Expected dividend yield (%)             | 0.0   |
| Expected volatility (%)                 | 45.80   |
| Risk-free interest rate (%)             | -0.78   |
| Model applied                           | Monte Carlo   |
| Value cap per option (€)                | 30.00   |
| Fair value per option (€)               | 2.79  |

The volatility applied over the remaining option term reflects historical volatility derived from peer group data, and appropriate to the remaining term. The expected volatility applied is based on the assumption that conclusions can be drawn from historical volatility about future trends. The volatility that actually occurs can differ from the assumptions made. The expected dividend yield is based on management estimates as well as market expectations. The risk-free interest rate is based on German government bond yields with congruent maturities. Due to the contractual structure, the management has made assumptions about expected exercise dates and payments. The actual exercise dates can differ from the assumptions that have been made.

For BRAIN AG, exercise of the subscription rights entails no effect on its cash position or treasury stock position, as no obligation of any kind exists for the company to deliver shares or cash payments in connection with this program. As the company receives the consideration in the form of work and similar service, pursuant to IFRS 2 an amount of € 449 thousand (previous year: € 200 thousand) for these share-based payment schemes is recognized at BRAIN AG. Of this amount, € 27 thousand relates to Management Board members.

#### **Growth equity program at Biocatalysts Ltd.**

In the past year, a share-based compensation scheme was established to incentivize and retain managers at Biocatalysts, which was acquired in the 2017/18 financial year, in which managers at local company level participate. In the 2018/19 financial year, the managers acquired 50,197 shares at a nominal price of GBP 0.1, in other words, at a total amount of GBP 5,020. The shares carry neither voting rights nor profit participation rights. At the same time, a put option agreement was concluded, which enables the beneficiaries to sell the shares back to the company on the basis of the financial statements as at 30 September 2022. The management may also demand the exercise of the put option on the basis of the financial statements as at 30 September 2022 or, in the event of poor business performance, refrain from or postpone such exercise. The amount paid out is calculated on the basis of the growth in the company's value based on a predefined EBITDA multiple and on the achievement of the budgeted figures for the 2021/22 financial year. The options were valued at €13.53 per option



as at 30 September 2020 (previous year: € 17.07). The resulting personnel expenses are distributed over the vesting period until 30 September 2022. As this represents cash-settled share-based payment, a revaluation is performed on each balance sheet date on the basis of the company's current planning. An expense of € 180 thousand was recognized in the financial year under review and a corresponding provision was formed (previous year: € 66 thousand).

#### **Employee share scheme of AnalytiCon Discovery GmbH**

Put/call options with BRAIN AG were agreed for all non-controlling interests in the 2014/15 financial year. In accordance with the contractual terms, employees and managers were able to exercise the put options until February 2020. In the past financial year, almost all holders of options still outstanding exercised their put options and transferred their shares to BRAIN AG. As a consequence, the interest held in AnalytiCon Discovery GmbH increased from 99.7% to 100%. The remuneration for the transferred shares will be paid in one further tranche, after both the first and the second were already paid in previous years. The financial liabilities resulting from this situation amount to € 838 thousand (previous year: € 1,658 thousand). Other liabilities decreased from € 1,414 thousand in the previous year to € 716 thousand as at 30 September 2020. The reduction in liabilities derives from the payment of one of the three tranches in the past financial year.

#### **Current and deferred taxes**

The expense for the period consists of current and deferred taxes. Taxes are recognized in the income statement unless they relate to items that were recognized directly in equity or in other comprehensive income. In such cases, the taxes are also recognized directly in equity or in other comprehensive income.

The current tax expense is calculated applying the tax rates that have been enacted as at the reporting date (or are soon to be enacted) in the countries in which the company and its subsidiaries are active and generate taxable income. The Management Board regularly reviews tax returns, in particular with regard to matters for which differing interpretations are possible, and recognizes income tax liabilities (if appropriate) based on the amounts expected to be paid to the tax authorities.

Deferred taxes are calculated using the balance sheet liability method. Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities on the IFRS balance sheet and their tax base, as well for differences resulting from consolidation adjustments.

In addition, deferred tax assets are recognized for the future tax benefit that arises from offsetting tax loss carryforwards against future taxable profit, to the extent that it is probable that such assets are expected to be recoverable, based on the company's tax projections.

Deferred tax assets and liabilities are offset if a legally enforceable right of offset exists and they relate to income taxes levied by same tax authority on the same taxable entity or the taxable entities intend to settle net.

Deferred tax assets or liabilities are reported as non-current assets or liabilities irrespective of the balance sheet classification by maturity.

## Leases

A lease is an agreement that gives the right to control the use of an identified asset for a specified period of time in return for payment of a consideration. Lease agreements exist at BRAIN AG as lessee, in particular in connection with real estate and vehicles. BRAIN Group companies do not act as lessors.

Until 30 September 2019, leases were accounted for in accordance with IAS 17 (Leases). The standard distinguishes between operating and finance leases. Lease payments for operating leases are expensed straight-line in the income statement over the lease term. Finance leases, which essentially transfer to the Group all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease. The leased assets are recognized at fair value or at the present value of the minimum lease payments, whichever is lower. Lease payments are apportioned between the finance costs and the reduction of the outstanding liability so as to achieve a constant rate of interest on the remaining balance of the liability over the lease term. Finance costs are recognized in the income statement. Leased assets are generally depreciated over their useful lives. If no reasonable certainty exists that the Group will obtain ownership by the end of the lease term, the leased asset is depreciated over the shorter of its estimated useful life and the lease term.

BRAIN AG has applied the regulations of IFRS 16 "Leases" since 1 October 2019. The effects of the first-time application of IFRS 16 are explained in more detail in the note "New accounting regulations applied". As part of the first-time application of IFRS 16, BRAIN AG applied the modified retrospective method, and consequently waived the restatement of comparative information. Accordingly, the previous year's figures continue to be accounted for in accordance with IAS 17.

With the implementation of IFRS 16, the separation of leases into operating and finance leases no longer applies to lessees. As a lessee, BRAIN AG now accounts for all leases and recognizes rights-of-use to assets and liabilities arising from leases in accordance with the following principles:

- BRAIN AG makes use of the option not to recognize leases for intangible assets as part of IFRS 16.
- BRAIN AG applies the exemptions in connection with lease agreements with a maximum term of twelve months from the date of delivery of the asset, as well as low-value assets. Leased assets with a maximum value of € 5,000 were defined as low-value assets. Lease payments for short-term leases and for leases for low-value assets are expensed on a straight-line basis over the lease term.
- For leases, use is generally made of the option of not separating lease and non-lease components. Lease and non-lease components are separated only for leases of land and buildings.

- In measuring the lease liability, the incremental borrowing rate is applied if the interest rate on which the lease is based cannot be determined. The calculation of the marginal borrowing rate is based on the risk-free interest rate appropriate to the term and the currency of the respective Group company. BRAIN AG applies the repayment model in order to determine the current portion of the lease liability. The current portion of the lease liabilities corresponds to the repayment portion of the next 12 months.
- In determining the term of leases, the exercise of existing renewal or termination options is estimated on a case-by-case basis, taking into account factors such as location strategies, leasehold improvements and degree of specificity.
- Lease liabilities are measured at the present value of the remaining lease payments, taking into account the incremental borrowing rate.
- The right-of-use is generally capitalized in the same amount as the lease liability. Differences may arise if, for example, demolition/restoration obligations exist.
- After capitalization, the right-of-use, which is to be measured at cost on the date of addition, is generally amortized on a straight-line basis over the lease term. However, if an existing call option has been assessed as sufficiently certain in relation to the probability of exercise, or if an automatic transfer of ownership occurs at the end of the contract term, amortization is applied over the same period as is otherwise applied to corresponding assets of property, plant and equipment (see the note on "Property, plant and equipment").
- If an existing lease is subsequently adjusted, the lease liability and the right-of-use asset must be remeasured if the contractual adjustment modifies the payment profile (in accordance with the interest and repayment schedule) or the scope of the right-of-use asset in terms of quantity or time.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, credit balances payable on demand, and term deposits with an original maturity of up to three months.

### **Statement of cash flows**

The statement of cash flows is classified into cash flows from operating activities, investing activities and financing activities. Where appropriate, any mixed transactions may be allocated to more than one activity. Overall, income taxes are included in cash flows from operating activities.

Cash flows from operating activities are presented applying the indirect method, under which profit for the period after taxes is adjusted for non-cash results components as well as deferrals of past or future inflows and outflows (including provisions), as well as items of income and expense that are attributable to investing activities.

## IV. Notes to the consolidated statement of comprehensive income

### 1 Revenue

The Group's revenue consists primarily of revenue from the sale of goods and products amounting to € 26,447 thousand (previous year: € 27,893 thousand), fees from research and development partnerships of € 10,302 thousand (previous year: € 8,982 thousand) and royalties of € 1,476 thousand (previous year: € 1,956 thousand). No other revenues were generated in the financial year under review (previous year: € 74 thousand).

Fees from research and development partnerships consist of one-off fees, ongoing research and development fees, and performance-related fees from milestones and project success points.

The composition of revenue by segments and regions is presented in the section "Segment reporting"

### 2 Research and development grant revenue

R&D grant revenue amounting to € 839 thousand (previous year: € 1,486 thousand) consists of non-repayable grants received for specific research and development projects, mainly for projects sponsors acting on behalf of the Federal Ministry of Education and Research (BMBF). The BMBF has the right to examine whether the funds granted are being used for the designated purpose.

### 3 Other income

Other income consists of:

| € thousand  | 2019/20    | 2018/19      |
|---|------------|--------------|
| Income from release of liabilities and provisions | 97         | 156          |
| Income from translating foreign currency items    | 171        | 108          |
| Benefits in kind and rental income                | 125        | 133          |
| Other out-of-period income                        | 14         | 13           |
| Insurance compensation                            | 2          | 525          |
| Miscellaneous other operating income              | 144        | 302          |
| <b>Total</b>                                      | <b>552</b> | <b>1,238</b> |

#### 4 Cost of materials

The cost of materials contains the cost of raw materials, consumables, and supplies, the cost of purchased merchandise, and the cost of services, in particular for third-party research and development expenses relating to R&D partnerships with universities and with other technology companies.

#### 5 Personnel expenses

Personnel expenses include, among other items, expenses of € 449 thousand from allocation to the capital reserves of share-based employee compensation at BRAIN AG (previous year: € 200 thousand). At Biocatalysts Ltd., provisions were formed for the share-based compensation scheme, and a corresponding personnel expense of € 180 thousand (previous year: € 66 thousand) was recognized. Due to the liabilities from the employee share scheme of AnalytiCon Discovery GmbH, personnel expenses of € 0 thousand (previous year: € 35 thousand) are included.

These include € 363 thousand (previous year: € 443 thousand) of expenses for pensions (occupational pension scheme, life insurance and pension insurance association contributions).

The employer contributions to the statutory pension insurance scheme amounted to € 1,133 thousand in the financial year under review (prior year: € 1,065 thousand).

Post-employment benefit costs of approximately € 370 thousand and employer contributions to the statutory pension insurance scheme (defined contribution benefit pension plan) of approximately € 1,157 thousand are expected in the 2020/21 financial year.

The effects and subsequent effects from measuring defined benefit pension commitments for one former Management Board member and for one Management Board member who left the company in the year under review, which are included in the statement of comprehensive income, consist of the following:

| € thousand   | 2019/20    | 2018/19    |
|--|------------|------------|
| Service cost                                       | 120        | 91         |
| Interest cost from the DBO/pension obligation      | 49         | 79         |
| Return on plan assets                              | -23        | -35        |
| <b>Expenses recognized in the operating result</b> | <b>146</b> | <b>135</b> |
| Remeasurement effects                              | -44        | 644        |
| <b>Net effect: other comprehensive income</b>      | <b>-44</b> | <b>644</b> |
| <b>Total expenses</b>                              | <b>102</b> | <b>779</b> |

Expenses of € 50 thousand (previous year: € 42 thousand) are also recognized in the statement of comprehensive income from defined contribution commitments to one former Management Board member and one Management Board member who left the company in the year under review.

The benefit entitlements for one former Management Board member and for one Management Board member who left the company in the year under review consist of a retirement pension from the age of 65 as well as surviving dependents' and invalidity benefits, which are paid out through an occupational pension plan (defined benefit plans).

The defined benefit obligation (DBO) reports the following changes:

| € thousand   | 2019/20      | 2018/19      |
|--|--------------|--------------|
| <b>Value on 1 October</b>  | <b>5,330</b> | <b>4,016</b> |
| Interest cost  | 49           | 79           |
| Service cost   | 120          | 91           |
| Remeasurement due to changes to demographic assumptions                  | 0            | -45          |
| Actuarial gains (-) and losses (+) from changes in financial assumptions | 95           | 1,202        |
| Remeasurement due to experience-based adjustments                        | -37          | -13          |
| <b>Value on 30 September</b>   | <b>5,557</b> | <b>5,330</b> |

The obligation was covered by reinsurance. Plan assets report the following changes:

| € thousand                   | 2019/20      | 2018/19      |
|------------------------------|--------------|--------------|
| <b>Value on 1 October</b>    | <b>2,473</b> | <b>1,780</b> |
| Return on plan assets        | 23           | 35           |
| Contributions paid           | 158          | 158          |
| Remeasurement effects        | 101          | 500          |
| <b>Value on 30 September</b> | <b>2,755</b> | <b>2,473</b> |

The plan assets arise exclusively from claims from reinsurance in the form of life insurance policies. To this extent, the fair value cannot be derived from a price in an active market and for this reason is also calculated actuarially.

After offsetting the obligation with the assigned plan assets, the amounts recognized on the balance sheet are as follows:

| € thousand                           | 30.09.2020   | 30.09.2019   |
|--------------------------------------|--------------|--------------|
| Defined benefit obligation           | 5,557        | 5,330        |
| Plan assets                          | -2,755       | -2,473       |
| <b>Provision for pension schemes</b> | <b>2,803</b> | <b>2,858</b> |

| € thousand                   | 2019/20      | 2018/19      |
|------------------------------|--------------|--------------|
| <b>Value on 1 October</b>    | <b>2,858</b> | <b>2,236</b> |
| Net interest costs           | 26           | 44           |
| Service cost                 | 120          | 91           |
| Contributions paid           | -158         | -158         |
| Remeasurement effects        | -44          | 644          |
| <b>Value on 30 September</b> | <b>2,803</b> | <b>2,858</b> |

In relation to pension obligations hedged through corresponding reinsurance, the “Richttafeln 2018G, Heubeck-Richttafeln GmbH, Köln 2018” mortality tables were utilized to measure the pension obligation as at 30 September 2020.

When measuring the pension obligation, an actuarial interest rate of 0.85% (previous year: 0.92%) and a pension trend of 1.00% was applied. The cashflow-weighted duration of the payment obligation scope amounts to 24.8 years (previous year: 24.3 years).

The significant valuation assumptions show the following sensitivities with regard to changes in the defined benefit obligation:

| € thousand                             | 30.09.2020 | 30.09.2019 |
|--|------------|------------|
| Change in interest rates +0.25 %       | -328       | -408       |
| Change in interest rates -0.25 %       | 355        | 441        |
| Increase in pension trend p.a. +0.25 % | 252        | 294        |
| Life expectancy +1 year                | 202        | 278        |
| Life expectancy -1 year                | -201       | -278       |

The expected contributions to plan assets in the 2020/21 financial year amount to € 248 thousand. No pension payments are expected for the 2020/21 financial year.

## 6 Depreciation, amortization and impairment

Depreciation, amortization and impairment charges are presented in the statements of changes in intangible assets and property, plant and equipment in the notes to the balance sheet. Depreciation, amortization and impairment charges include impairment charges of € 11 thousand (previous year: € 1,777 thousand) on the goodwill of a cash-generating unit, and an impairment charge of € 408 thousand (previous year: € 0 thousand) on other intangible assets (production organisms) that are no longer utilized.

## 7 Other expenses

Other expenses consist of the following:

| € thousand                                 | 2019/20 | 2018/19 |
|--|---------|---------|
| Advertising and travel expenses            | 786     | 1,402   |
| Occupancy costs                            | 946     | 1,223   |
| Distribution, sales and logistics expenses | 792     | 927     |
| Legal and consulting expenses              | 914     | 596     |
| Repair and maintenance expenses            | 434     | 463     |
| Office and business supplies               | 291     | 423     |
| Costs of financial statements and auditing | 495     | 369     |
| Insurance                                  | 340     | 368     |
| Services                                   | 178     | 301     |
| Supervisory Board compensation             | 225     | 284     |

| in Tsd. €                     | 2019/20      | 2018/19      |
|-------------------------------|--------------|--------------|
| Currency translation expenses | 232          | 115          |
| Losses on receivables         | 0            | 564          |
| Miscellaneous other expenses  | 1,686        | 1,658        |
| <b>Other expenses, total</b>  | <b>7,320</b> | <b>8,694</b> |

Miscellaneous other expenses include, among other minor items, costs such as stock exchange taxes and further training costs. The total amount of rent and lease payments expensed in the 2018/19 financial year stands at € 319 thousand.

## 8 Finance income

Finance income consists of the following:

| € thousand   | 2019/20      | 2018/19    |
|--|--------------|------------|
| Income from subsequent measurement of financial liabilities            | 460          | 435        |
| Income from the derecognition of financial liabilities                 | 671          | 0          |
| Income from dilution of interests held in equity-accounted investments | 0            | 491        |
| Interest income from loans to equity-accounted investments             | 14           | 7          |
| Income from the (subsequent) measurement of financial derivatives      | 384          | 0          |
| Miscellaneous finance income   | 16           | 7          |
| <b>Miscellaneous finance income</b>                                    | <b>1,546</b> | <b>940</b> |

Income from the subsequent measurement of financial liabilities derives mainly from the change in measurement of put option rights relating to non-controlling interests of Biocatalysts Ltd. in an amount of € 356 thousand. In the previous year, the income mainly derived from the change in the measurement of put option rights relating to non-controlling interests in Weiss-BioTech GmbH. The income from the derecognition of financial liabilities is mainly related to the acquisition of the remaining non-controlling interests in WeissBioTech GmbH, Ascheberg, in the past financial year, and the associated waiver by the seller of the non-controlling interests in relation to the repayment of outstanding loans.

A description of the changes in connection with the retrospective correction of the measurement of the put options relating to the non-controlling interests in the Biocatalysts Group is presented in the section "IAS 8 corrections".



## 9 Finance costs

Finance costs consist of the following:

| € thousand   | 2019/20    | 2018/19      |
|--|------------|--------------|
| Payments for silent partnerships   | 285        | 285          |
| Payments for loans   | 289        | 211          |
| Interest costs for leases  | 99         | 17           |
| Expenses from the subsequent measurement of financial liabilities for the potential acquisition of non-controlling interests (put options) | 27         | 1,884        |
| Expenses from the (subsequent) measurement of financial derivatives  | 0          | 494          |
| Miscellaneous finance costs  | 172        | 173          |
| <b>Finance costs, total</b>  | <b>872</b> | <b>3,064</b> |

## 10 Current and deferred taxes

Deferred taxes are measured using the tax rates expected to apply in the period when the asset is realized, or the liability is settled. For all German entities included in the Group, this is 15.825% for corporate income tax, including the solidarity surcharge (previous year: 15.825%). The trade tax rate for domestic Group companies and the combined tax rate are shown below:

| Trade tax rate               | 2019/20        | 2018/19        |
|------------------------------|----------------|----------------|
| BRAIN AG                     | 13.30 %        | 13.30 %        |
| BRAIN Capital GmbH           | 13.30 %        | 13.30 %        |
| AnalytiCon Discovery GmbH    | 15.93 %        | 15.93 %        |
| Mekon Science Networks GmbH  | 11.55 %        | 11.55 %        |
| L. A. Schmitt GmbH           | 11.76 %        | 11.76 %        |
| WeissBioTech GmbH            | 14.53 %        | 14.60 %        |
| <b>Combined tax rate</b>     | <b>2019/20</b> | <b>2018/19</b> |
| BRAIN AG                     | 29.13 %        | 29.13 %        |
| BRAIN Capital GmbH           | 29.13 %        | 29.13 %        |
| BRAIN US LLC                 | 23.90 %        | 23.90 %        |
| AnalytiCon Discovery GmbH    | 31.75 %        | 31.75 %        |
| AnalytiCon Discovery LLC     | 23.90 %        | 23.90 %        |
| Mekon Science Networks GmbH  | 27.63 %        | 27.63 %        |
| L. A. Schmitt GmbH           | 27.59 %        | 27.59 %        |
| Biocatalysts Ltd.            | 19.00 %        | 19.00 %        |
| Biocatalysts Inc.            | 21.00 %        | 21.00 %        |
| WeissBioTech GmbH            | 30.35 %        | 30.42 %        |
| WeissBioTech France S.A.R.L. | 33.33 %        | 33.33 %        |

Of the tax assets of € 93 thousand (previous year: € 10 thousand), € 93 thousand (previous year: € 8 thousand) relate to corporation tax and the solidarity surcharge, and € 0 thousand (previous year: € 2 thousand) relate to trade tax. Of the tax liabilities of € 325 thousand (previous year: € 784 thousand), € 132 thousand (previous year: € 83 thousand) relate to trade tax, and € 193 thousand (previous year: € 701 thousand) relate to corporation tax.

Deferred tax assets and liabilities and their changes in the financial year are as follows:

| € thousand                            | 30.09.2020          |                          | 30.09.2019          |                          |
|---------------------------------------|---------------------|--------------------------|---------------------|--------------------------|
|                                       | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Intangible assets                     | 0                   | 1,873                    | 0                   | 2,367                    |
| Tax loss carryforwards/<br>carrybacks | 197                 | 0                        | 0                   | 0                        |
| Property, plant and equipment         | 27                  | 453                      | 50                  | 244                      |
| Inventories                           | 0                   | 74                       | 0                   | 27                       |
| Trade receivables                     | 4                   | 2                        | 1                   | 74                       |
| Pension commitments                   | 0                   | 0                        | 50                  | 0                        |
| Provisions and liabilities            | 17                  | 2                        | 17                  | 3                        |
| Deferred income                       | 6                   | 0                        | 4                   | 0                        |
| <b>Total</b>                          | <b>250</b>          | <b>2,405</b>             | <b>122</b>          | <b>2,715</b>             |
| <b>Offset</b>                         | <b>-250</b>         | <b>-250</b>              | <b>-122</b>         | <b>-122</b>              |
| <b>Total</b>                          | <b>0</b>            | <b>2,155</b>             | <b>0</b>            | <b>2,593</b>             |

| € thousand   | 2019/20      |
|--|--------------|
| Net deferred tax liabilities at start of financial year (1 October 2019)   | 2,593        |
| Additions to deferred tax assets/liabilities due to changes in the scope of consolidation  | 0            |
| Additions/disposals of deferred taxes from the first-time application of IFRS 9 and other additions/disposals (via revenue reserves)                           | 0            |
| Change in deferred taxes due to exchange rate differences  | -44          |
| Change in deferred taxes from profit/loss from revaluing obligations from post-employment employee benefits  | 0            |
| Change in temporary differences between carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base (recognized in profit or loss) | 197          |
| Deferred tax expense from the use, and due to amortization, of tax loss carryforwards  | 0            |
| Deferred tax income from capitalizing tax loss carryforwards and tax carrybacks  | 197          |
| Deferred tax income reported in the statement of comprehensive income  | 394          |
| <b>Net deferred tax liabilities at end of financial year (30 September 2020)</b>   | <b>2,155</b> |

The differences between the expected income tax income based on the IFRS loss before taxes for the period and combined tax rate of BRAIN AG of 29.125% (previous year: 29.125%) and the income tax expense reported in the consolidated statement of comprehensive income are shown in the following table:

| € thousand  | 2019/20       | 2018/19        |
|---|---------------|----------------|
| <b>Consolidated net profit/loss for the period before taxes</b>                       | <b>-9,944</b> | <b>-11,111</b> |
| Expected tax income   | -2,896        | -3,236         |
| Different tax rates applicable to consolidated subsidiaries                           | -178          | -11            |
| Effects of changes in tax rates   | 7             | 0              |
| Goodwill impairment   | 0             | 518            |
| Permanent differences from consolidation adjustments                                  | 550           | 892            |
| Permanent differences from subsequent measurement of financial assets and liabilities | -30           | -127           |
| Permanent differences from equity-settled share-based compensation                    | 131           | 58             |
| Tax-exempt income   | -24           | 2              |
| Utilization of previous years' tax loss carryforwards                                 | -252          | -9             |
| Non-capitalized tax loss carryforwards  | 2,435         | 2,050          |
| Unrecognized deferred taxes due to lack of capitalization of tax loss carryforwards   | 0             | 8              |
| Other permanent differences   | 0             | 73             |
| Out-of-period taxes and other differences   | -670          | -209           |
| <b>Reported current or deferred income tax income (-)/expense (+)</b>                 | <b>-927</b>   | <b>9</b>       |

The following table shows the maturity of the deferred taxes recognized at the end of the reporting period. Deferred taxes are classified as current if the entity expects to realize the asset or settle the liability within twelve months after the reporting period.

| € thousand                           | 2019/20 | 2018/19 |
|--------------------------------------|---------|---------|
| Current deferred tax assets          | 135     | 18      |
| Non-current deferred tax assets      | 115     | 104     |
| Current deferred tax liabilities     | 474     | 464     |
| Non-current deferred tax liabilities | 1,930   | 2,251   |
| Net current deferred tax assets      | -339    | -446    |
| Net non-current deferred tax assets  | -1,815  | -2,147  |

Based on the detailed planning horizon of three financial years modelled in the consolidated entities' tax projections, no deferred tax assets were recognized for tax loss carryforwards with an (in principle) unlimited carryforward period resulting from financial year 2019/20 and prior financial years amounting to € 60,277 thousand (corporation tax; previous year: € 52,361 thousand) and € 60,246 thousand (trade tax; previous year: € 52,390 thousand). The potential tax benefits that have consequently not been recognized amount to € 17,552 thousand (prior year: € 15,243 thousand).

No deferred taxes arose from a difference between tax valuations of participating interests and the net assets of subsidiaries included in the consolidated financial statements.

## 11 Earnings per share

Earnings per share were calculated based on the loss for the period of € -9,112,768 as reported in the consolidated income statement (previous year: € -11,762,345).

Earnings per share are calculated by dividing the loss accruing to the shareholders of BRAIN AG for the period by the average number of shares of BRAIN AG issued in the financial year. The average number of shares in financial year 2019/20 amounted to 18,657,641 no-par value shares (previous year: 18,055,782 no-par value shares).

No dilutive effects arise at present.

## V. Notes to the balance sheet

### 12 Intangible assets

The following table shows the composition and changes:

| € thousand                          | Goodwill     | Other intangible assets | Total intangible assets |
|-------------------------------------|--------------|-------------------------|-------------------------|
| <b>FY 2019/20</b>                   | <b>4,586</b> | <b>16,083</b>           | <b>20,669</b>           |
| Cost                                |              |                         |                         |
| Balance at 1 October 2019           |              |                         |                         |
| Additions                           | 0            | 44                      | 44                      |
| Disposals                           | -11          | 0                       | -11                     |
| Currency translation                | -91          | -220                    | -311                    |
| <b>Balance at 30 September 2020</b> | <b>4,484</b> | <b>15,908</b>           | <b>20,392</b>           |
| Amortization and impairment         |              |                         |                         |
| Balance at 1 October 2019           | 0            | 4,875                   | 4,875                   |
| Amortization for the financial year | 0            | 1,899                   | 1,899                   |
| Impairment for the financial year   | 11           | 408                     | 419                     |
| Disposals                           | -11          | 0                       | -11                     |
| Currency translation                | 0            | -61                     | -61                     |
| <b>Balance at 30 September 2020</b> | <b>0</b>     | <b>7,121</b>            | <b>7,121</b>            |
| <b>Net carrying amount</b>          | <b>4,484</b> | <b>8,786</b>            | <b>13,270</b>           |
| <b>Balance at 30 September 2020</b> |              |                         |                         |
| Balance at 30 September 2019        | 4,586        | 11,208                  | 15,794                  |

| € thousand                          | Goodwill     | Other intangible assets | Total intangible assets |
|-------------------------------------|--------------|-------------------------|-------------------------|
| <b>FY 2018/19</b>                   | <b>6,703</b> | <b>16,221</b>           | <b>22,923</b>           |
| Cost                                |              |                         |                         |
| Balance at 1 October 2018           |              |                         |                         |
| Additions                           | 0            | 26                      | 26                      |
| Disposals                           | -2,115       | -161                    | -2,276                  |
| Currency translation                | -1           | -3                      | -4                      |
| <b>Balance at 30 September 2019</b> | <b>4,586</b> | <b>16,083</b>           | <b>20,669</b>           |
| Amortization and impairment         |              |                         |                         |
| Balance at 1 October 2018           | 338          | 3,510                   | 3,848                   |
| Amortization for the financial year | 0            | 1,501                   | 1,501                   |
| Impairment for the financial year   | 1,777        | 0                       | 1,777                   |
| Disposals                           | -2,115       | -130                    | -2,245                  |
| Currency translation                | 0            | -7                      | -7                      |
| <b>Balance at 30 September 2019</b> | <b>0</b>     | <b>4,875</b>            | <b>4,875</b>            |
| <b>Net carrying amount</b>          | <b>4,586</b> | <b>11,208</b>           | <b>15,794</b>           |
| <b>Balance at 30 September 2019</b> |              |                         |                         |
| Balance at 30 September 2018        | 6,365        | 12,711                  | 19,075                  |

The goodwill reported as at 30 September 2020 arises from the acquisition of the AnalytiCon Group (AnalytiCon Discovery GmbH, AnalytiCon Discovery LLC) in the 2013/14 financial year, and the acquisition of the Biocatalysts Group (Biocatalysts Ltd., Biocatalysts Inc.) in the 2017/18 financial year. The goodwill impairment loss from the previous year arises from the write-down of the goodwill of Monteil Cosmetics International GmbH. Further information is presented in the section "Impairment tests".

The other intangible assets that are material to the consolidated financial statements consist of the intangible assets identified as part of the purchase price allocation, as shown in the following table.

| € thousand                                       | 30.09.2020 | 30.09.2019 | Remaining useful life <sup>7</sup><br>as at 30.09.2020 |
|--|------------|------------|--|
| Technology of AnalytiCon Discovery GmbH          | 787        | 1,030      | 3  |
| Technology of WeissBioTech GmbH                  | 411        | 1,077      | 1  |
| Technology of Biocatalysts Ltd.                  | 3,522      | 3,990      | 10   |
| Customer relationships of the Biocatalysts Group | 3,567      | 4,085      | 9  |

In accordance with the accounting policies presented above, no development costs were capitalized in the 2019/20 financial year or in the previous year, as it is not possible to distinguish research and development phases due to the alternating process, and consequently not all of the criteria specified in IAS 38 were met.

Research and development expenses of € 5,789 thousand (previous year: € 7,820 thousand) are reported in the statement of comprehensive income mainly under the items "personnel expenses", "cost of materials" and "other expenses", as well as in amortization charges.

<sup>7</sup> Remaining useful life in years

### 13 Property, plant and equipment

Investments in property, plant and equipment in the 2019/20 financial year were attributable primarily to the technical expansion of research, development, and manufacturing infrastructure. The following table shows the composition and changes of property, plant and equipment:

| € thousand   | Land and buildings | Operating and office equipment | Total property, plant and equipment |
|--|--------------------|--------------------------------|-------------------------------------|
| <b>FY 2019/20</b>                                  | <b>9,256</b>       | <b>16,726</b>                  | <b>25,982</b>                       |
| Cost   |                    |                                |                                     |
| Balance at 1 October 2019                          |                    |                                |                                     |
| Additions from (first-time application of) IFRS 16 | 3,010              | 54                             | 3,064                               |
| Additions  | 3,825              | 2,764                          | 6,589                               |
| Disposals  | 0                  | -453                           | -453                                |
| Currency translation                               | -64                | -212                           | -276                                |
| <b>Balance at 30 September 2020</b>                | <b>16,026</b>      | <b>18,879</b>                  | <b>34,905</b>                       |

| € thousand                          | Land and buildings | Operating and office equipment | Total property, plant and equipment |
|-------------------------------------|--------------------|--------------------------------|-------------------------------------|
| Depreciation and impairment         | 2,690              | 6,148                          | 8,838                               |
| Balance at 1 October 2019           |                    |                                |                                     |
| Depreciation for the financial year | 925                | 1,109                          | 2,034                               |
| Disposals                           | 0                  | -383                           | -383                                |
| Currency translation                | -4                 | -50                            | -54                                 |
| <b>Balance at 30 September 2020</b> | <b>3,611</b>       | <b>6,825</b>                   | <b>10,435</b>                       |
| <b>Net carrying amount</b>          | <b>12,416</b>      | <b>12,054</b>                  | <b>24,470</b>                       |
| <b>Balance at 30 September 2020</b> |                    |                                |                                     |
| Balance at 30 September 2019        | 6,566              | 10,578                         | 17,144                              |

| € thousand                          | Land and buildings | Operating and office equipment | Total property, plant and equipment |
|-------------------------------------|--------------------|--------------------------------|-------------------------------------|
| <b>FY 2018/19</b>                   | <b>9,268</b>       | <b>10,692</b>                  | <b>19,960</b>                       |
| Cost                                |                    |                                |                                     |
| Balance at 1 October 2018           |                    |                                |                                     |
| Additions                           | 0                  | 6,563                          | 6,563                               |
| Disposals                           | -11                | -529                           | -540                                |
| Currency translation                | -1                 | -1                             | -2                                  |
| <b>Balance at 30 September 2019</b> | <b>9,256</b>       | <b>16,726</b>                  | <b>25,982</b>                       |

| € thousand                          | Land and buildings | Operating and office equipment | Total property, plant and equipment |
|-------------------------------------|--------------------|--------------------------------|-------------------------------------|
| Depreciation and impairment         | 2,447              | 5,471                          | 7,918                               |
| Balance at 1 October 2018           |                    |                                |                                     |
| Depreciation for the financial year | 255                | 1,169                          | 1,424                               |
| Disposals                           | -11                | -490                           | -501                                |
| Currency translation                | 0                  | -3                             | -3                                  |
| <b>Balance at 30 September 2019</b> | <b>2,690</b>       | <b>6,148</b>                   | <b>8,838</b>                        |
| <b>Net carrying amount</b>          | <b>6,566</b>       | <b>10,578</b>                  | <b>17,144</b>                       |
| <b>Balance at 30 September 2019</b> |                    |                                |                                     |
| Balance at 30 September 2018        | 6,821              | 5,221                          | 12,042                              |

Land and buildings serve partly as collateral for bank loans. Not all of the land and buildings of BRAIN AG that are included in this item were assigned as collateral. More detail can be found in Section “(21) Financial liabilities”.

### Rights-of-use

The rights-of-use assets reported under property, plant and equipment derive from leases accounted for in accordance with IFRS 16. The following table presents the changes in the rights-of-use.

| € thousand                          | Land and buildings | Operating and office equipment | Total property, plant and equipment |
|-------------------------------------|--------------------|--------------------------------|-------------------------------------|
| <b>FY 2019/20</b>                   | <b>3,010</b>       | <b>998</b>                     | <b>4,008</b>                        |
| First-time application of IFRS 16   |                    |                                |                                     |
| Additions                           | 3,810              | 904                            | 4,714                               |
| Depreciation                        | 679                | 182                            | 861                                 |
| Currency translation                | 0                  | -9                             | -9                                  |
| <b>Balance at 30 September 2020</b> | <b>6,141</b>       | <b>1,711</b>                   | <b>7,852</b>                        |

Information on lease liabilities is provided in the section “(21) Financial liabilities”.

The following table presents the total cash outflows for leases in the 2019/20 financial year.

| € thousand                              | 2019/20    |
|---|------------|
| <b>Cash outflows for leases</b>         |            |
| Repayments of lease liabilities         | 617        |
| Interest payments for lease liabilities | 82         |
| Leases of low-value assets              | 17         |
| <b>Total as at 30.09.2020</b>           | <b>716</b> |

## 14 Equity-accounted investments

### Enzymicals AG

The carrying amount of the interest in the associated company Enzymicals AG<sup>8</sup> reports the following changes:

| € thousand                                     |            |
|--|------------|
| Carrying amount at 30.09.2018                  | 184        |
| Share of profit or loss after taxes in 2018/19 | 8          |
| Carrying amount at 30.09.2019                  | 191        |
| Share of profit or loss after taxes in 2019/20 | -58        |
| <b>Carrying amount at 30.09.2020</b>           | <b>133</b> |

The interest held by BRAIN AG continued to amount to 24.095 % in the 2019/20 financial year. No publicly listed market prices exist for the shares of Enzymicals AG. This participating interest is allocated to the BioScience segment. No losses were recognized in the financial year under review (previous year: € 0 thousand).

<sup>8</sup> Financial year = calendar year; the difference arises from the historical difference between the financial year of BRAIN AG and the calendar year.

The following tables show the aggregated results and balance sheet data of Enzymicals AG and the amounts of profit or loss for the period and equity attributable to BRAIN AG in line with its interest (24.095%). The figures for Enzymicals AG were calculated based on the accounting principles of the German Commercial Code (HGB), as the Management Board is of the opinion that no material valuation differences exist in relation to IFRS.

| € thousand                          | 2019/20 | 2018/19 |
|-------------------------------------|---------|---------|
| Revenue                             | 1,185   | 1,432   |
| Total comprehensive income or loss  | -241    | 32      |
| Share of profit or loss after taxes | -58     | 8       |

| € thousand                   | 30.09.2020 | 30.09.2019 |
|------------------------------|------------|------------|
| Non-current assets           | 388        | 350        |
| Current assets               | 502        | 575        |
| Total equity and liabilities | 39         | 144        |
| Current liabilities          | 987        | 662        |
| Equity                       | -137       | 104        |
| Interest in equity           | -33        | 25         |

The difference between the recognized valuation of the participating interest and the proportional equity attributable to BRAIN AG of € 166 thousand reflects goodwill.

#### SolasCure Ltd.

The carrying amount of the interest in the associated company SolasCure Ltd. reports the following changes:

| € thousand  |              |
|---|--------------|
| Carrying amount at 30.09.2018   | 1,800        |
| Gain from share dilution (deemed disposal)                                | 491          |
| Share of profit or loss after taxes in 2018/19                            | -1,795       |
| Reversal of elimination of unrealized results of intra-group transactions | 762          |
| Currency translation  | -11          |
| <b>Carrying amount at 30.09.2019</b>                                      | <b>1,247</b> |

| € thousand  |            |
|---|------------|
| Share of profit or loss after taxes in 2019/20                            | -2,362     |
| Reversal of elimination of unrealized results of intra-group transactions | 31         |
| Capital increase 20/03/2020   | 1,874      |
| Currency translation  | 74         |
| <b>Carrying amount at 30.09.2020</b>                                      | <b>864</b> |



The interest held by BRAIN AG amounted to 45,58% in the 2019/20 financial year. No publicly listed market prices are available for the shares of SolasCure Ltd. This participating interest is allocated to the BioScience segment. No losses were recognized in the financial year under review (previous year: € 0 thousand).

The following tables show the aggregated results and balance sheet data of SolasCure Ltd. and the amounts of profit or loss for the period and equity attributable to BRAIN AG in line with its interest (45,58%). The disclosures reflect the financial statements of SolasCure Ltd. prepared in accordance with IFRS as adopted by the European Union.

| € thousand                          | 2019/20 | 2018/19 |
|-------------------------------------|---------|---------|
| Revenue                             | 0       | 0       |
| Total comprehensive income or loss  | -5,182  | -3,168  |
| Share of profit or loss after taxes | -2,362  | -1,795  |

| € thousand                   | 30.09.2020 | 30.09.2019 |
|------------------------------|------------|------------|
| Non-current assets           | 3,837      | 3,928      |
| Current assets               | 2,581      | 3,036      |
| Total equity and liabilities | 0          | 90         |
| Current liabilities          | 1,395      | 867        |
| Equity                       | 5,023      | 6,007      |
| Interest in equity           | 2,289      | 2,752      |

In addition to the remaining elimination of unrealized results of intra-group transactions, the difference between the amount recognized for the participating interest and the proportionate equity attributable to BRAIN AG is attributable to goodwill of € 254 thousand.

## 15 Inventories

Inventories consist of the following:

| € thousand                              | 30.09.2020   | 30.09.2019   |
|---|--------------|--------------|
| Finished goods                          | 4,240        | 4,523        |
| Raw materials, consumables and supplies | 2,280        | 2,790        |
| Work in progress                        | 444          | 613          |
| Prepayments on inventories              | 0            | 106          |
| <b>Total</b>                            | <b>6,964</b> | <b>8,032</b> |

Inventories included impairment losses on raw materials and supplies of € 306 thousand (prior year: € 107 thousand), and work in progress and finished goods of € 0 thousand (prior year: € 0 thousand). Reversals of impairment losses of € 0 thousand were applied (previous year: € 0 thousand).

**16 Trade receivables**

Trade receivables consist of the following:

| € thousand  | 30.09.2020   | 30.09.2019   |
|---|--------------|--------------|
| Trade receivables                                       | 5,899        | 5,597        |
| Receivables from research and development grant revenue | 266          | 541          |
| Receivables from contingent premium payments            | 0            | 250          |
| <b>Total</b>  | <b>6,166</b> | <b>6,388</b> |

The presented carrying amounts of receivables correspond to the fair values.

Trade receivables generally have a term of up to one year. Credit default rates in a range of 0.5% – 10% were applied in order to calculate the total lifetime ECL. Total lifetime ECLs of € 13 thousand (previous year: € 63 thousand) and specific valuation allowances of € 38 thousand (previous year: € 215 thousand) were recognized for receivables as at the 30 September 2020 reporting date. These are recorded in a separate allowance account. Receivables from contingent premium payments were derecognized in the amount of € 125 thousand with an effect on profit and loss.

The following table shows the term structure of current financial receivables in the 2019/20 financial year in accordance with IFRS 9.

| € thousand | Trade receivables | of which:<br>not overdue as<br>at the balance<br>sheet date | of which:<br>overdue in the following reporting periods |                           |                           |                      | Total<br>lifetime ECL | Carrying<br>amount |
|------------|-------------------|---|---|---------------------------|---------------------------|----------------------|-----------------------|--------------------|
|            |                   |   | Up to 30 days   | Between 30 and<br>60 days | Between 60 and<br>90 days | More than 90<br>days |                       |                    |
| 30.09.2020 | 6,217             | 5,764   | 303   | 117                       | 13                        | 20                   | 51                    | 6,166              |

Further information on impairments and the credit risks pertaining to trade receivables is provided in the section “VI. Financial instruments/risks from financial instruments”.

The following table shows the term structure of current financial receivables in the 2018/19 financial year.

| € thousand | Trade receivables | of which:<br>not overdue as<br>at the balance<br>sheet date | of which:<br>overdue in the following reporting periods |                           |                           |                      | Total<br>lifetime ECL | Carrying<br>amount |
|------------|-------------------|---|---|---------------------------|---------------------------|----------------------|-----------------------|--------------------|
|            |                   |   | Up to 30 days   | Between 30 and<br>60 days | Between 60 and<br>90 days | More than 90<br>days |                       |                    |
| 30.09.2019 | 5,660             | 4,300   | 1,010   | 134                       | 30                        | 185                  | 63                    | 5,597              |

The following table shows the changes in impairment losses:

| € thousand                              | 2019/20   |
|---|-----------|
| Carrying amount at start of period      | 253       |
| Net effect of addition and reversals    | -202      |
| <b>Carrying amount at end of period</b> | <b>51</b> |

| € thousand   | 2018/19    |
|--|------------|
| IAS 39 carrying amount at start of period                  | 143        |
| IFRS 9 adjustment  | 42         |
| Status of valuation adjustment on 01.10.2018 as per IFRS 9 | 185        |
| Disposal due to change in consolidation scope              | -32        |
| Net effect of addition and reversals                       | 100        |
| <b>Carrying amount at end of period</b>                    | <b>253</b> |

Trade receivables in the total amount of € 125 thousand were derecognized through profit or loss in the 2019/20 financial year (previous year: € 2 thousand), having not been already been expensed in previous years. No impairment losses were reversed in relation to impaired receivables.

## 17 Other financial assets

Other financial assets consist of the following:

| € thousand                           | 30.09.2020 | 30.09.2019 |
|--------------------------------------|------------|------------|
| Loans extended up to one year        | 229        | 149        |
| Deposits with a term up to one year  | 53         | 63         |
| Miscellaneous other financial assets | 50         | 0          |
| <b>Total</b>                         | <b>332</b> | <b>213</b> |

## 18 Other non-current and current assets

Other non-current assets consist of the following:

| € thousand   | 30.09.2020 | 30.09.2019 |
|--|------------|------------|
| Expenses deferred for a period of more than one year | 113        | 216        |
| Loans extended                                       | 200        | 558        |
| Deposits   | 16         | 17         |
| <b>Total</b>   | <b>329</b> | <b>791</b> |

Other current assets consist of the following:

| € thousand                                   | 30.09.2020 | 30.09.2019   |
|--|------------|--------------|
| Expenses relating to the following year      | 280        | 391          |
| Receivables from insurance compensation      | 31         | 397          |
| VAT receivables due from the tax authorities | 47         | 157          |
| Miscellaneous other current assets           | 228        | 209          |
| <b>Total</b>                                 | <b>585</b> | <b>1,154</b> |

All current assets have a remaining term of up to one year. The portfolio of other assets was neither overdue nor impaired as at the reporting date. Default risk is regarded as low, as in the previous year.

## 19 Cash and cash equivalents/statement of cash flows

Cash and cash equivalents are held mainly at banks in Germany and in the UK that are members of a deposit protection fund.

In the statement of cash flows, other non-cash expenses and income include the following items:

| € thousand  | 2019/20      | 2018/19      |
|---|--------------|--------------|
| <b>Expenses</b>   |              |              |
| Personnel expenses from share-based compensation and employee share schemes       | 449          | 236          |
| Impairment losses on non-current financial assets                                 | 155          | 149          |
| Losses on receivables/change in value allowances for receivables                  | 125          | 11           |
| Currency translation differences  | 30           | 0            |
| Net finance costs from subsequent measurement of financial liabilities            | 43           | 2,450        |
| Impairment losses on inventories  | 306          | 107          |
| Miscellaneous   | 5            | 65           |
| <b>Total</b>  | <b>1,113</b> | <b>3,018</b> |
| <b>Income</b>   |              |              |
| Reduction in value allowances for receivables                                     | 34           | 24           |
| Net finance income from subsequent measurement of financial and other liabilities | 460          | 435          |
| Currency translation differences  | 0            | 0            |
| Income from dilution of interests held in equity-accounted investments            | 0            | 491          |
| Loan waivers  | 477          | 0            |
| Miscellaneous financial result  | 384          | 51           |
| Miscellaneous   | 62           | 0            |
| <b>Total</b>  | <b>1,417</b> | <b>1,001</b> |
| <b>Net cash expenses/income</b>   | <b>-304</b>  | <b>2,017</b> |

## 20 Equity

Changes to the equity capital position are shown in the consolidated statement of changes in equity.

### **Subscribed capital**

The subscribed share capital amounts to €19,861,360 (previous year: €18,055,782) and is divided into 19,861,360 ordinary shares (previous year: 18,055,782), to each of which a proportional amount of the share capital of €1.00 is attributable. The shares are fully paid-in registered shares. The shares are listed in the Prime Standard stock market segment of the Frankfurt Stock Exchange.

### **Authorized capital**

With an AGM resolution on 8 March 2018, authorized capital of €9,027,891 was created (Authorized Capital 2018/I). Authorized Capital 2018/I was entered in the commercial register on 23 March 2018. The Management Board was authorized, with Supervisory Board assent, to increase the company's share capital in the period until 7 March 2023, once or on several occasions, albeit by a maximum of up to a nominal amount of €9,027,891 through issuing up to 9,027,891 new ordinary registered shares against cash or non-cash capital contributions, whereby shareholders' statutory subscription rights can be wholly or partly excluded. If the new shares are issued against cash capital contributions, shareholders' statutory subscription rights can be wholly or partially excluded if the new shares' issue price is not significantly less than the stock market price of the company's shares already listed on the date when the issue price is finally determined, and the total number of shares issued in this manner under exclusion of subscription rights does not exceed 10% of the share capital. By resolution of the Management Board on 3 June 2020, and with the approval of the Supervisory Board on the same date, the authorized capital was partially utilized for a capital increase, excluding statutory subscription rights, in the amount of €1,805,578. The capital increase from authorized capital was entered in the commercial register on 5 June 2020.

Accordingly, authorized capital of €7,222,313 was reported as at the 30 September 2020 reporting date.

### **Conditional capital**

Pursuant to Section 5 (3), (4) and (5) of the company's bylaws, the share capital is conditionally increased by €5,090,328 through issuing up to 5,090,328 new ordinary registered shares (Conditional Capital 2015/I) and by a further €123,000 through issuing up to 123,000 new ordinary registered shares (Conditional Capital 2015/II), and through issuing up to 1,682,578 new ordinary registered shares (Conditional Capital 2019/I).

Conditional Capital 2015/I serves exclusively to grant shares to the holders of bonds with warrants and convertible bonds that the company issues based on the authorization of the Management Board by way of AGM resolution passed on 8 July 2015. The conditional capital increase is to be implemented through issuing up to 5,090,328 new ordinary registered shares only to the extent that the holders of convertible bonds and/or bonds with warrants utilize their conversion rights or warrant rights, or the holders of convertible bonds that are obligated to convert satisfy their obligation to convert, and to the extent that other forms of satisfaction are

not deployed to service the bonds. An increase in the share capital from Conditional Capital 2015/I had not been implemented as at the 30 September 2020 reporting date.

Conditional Capital 2015/II serves exclusively to service subscription rights arising from stock options that are granted – pursuant to the AGM resolution dated 8 July 2015 as part of a stock option plan comprising up to 123,000 stock options that carry subscription rights to shares of BRAIN AG with a term of up to eight years – to the members of the company's Management Board, members of affiliated companies' management boards, as well as managers and other company employees in senior positions. The conditional capital increase is to be implemented only to the extent that the holders of issued subscription rights utilize them, and the company does not grant treasury shares or cash settlement to satisfy these subscription rights. An increase in the share capital from Conditional Capital 2015/II had not been implemented as at the 30 September 2019 reporting date. At the Annual General Meeting on 7 March 2019, Conditional Capital 2015/II was reduced from originally € 1,272,581 to € 123,000, as this capital was to remain exclusively for hedging stock options already issued. The authorization to issue further stock options from Conditional Capital 2015/II was revoked at the same Annual General Meeting and replaced by a new authorization (see following section).

By resolution of the Annual General Meeting on 7 March 2019, the share capital was conditionally increased by € 1,682,578 through the issue of up to 1,682,578 new no-par-value registered shares (Conditional Capital 2019/I). The conditional capital serves exclusively to service subscription rights from stock options granted to members of the company's Management Board and other senior company managers. The Management Board is authorized, with the approval of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase. The conditional capital increase is to be implemented only to the extent that the holders of issued subscription rights utilize them, and the company does not grant treasury shares or cash settlement to satisfy these subscription rights. An increase in the share capital from Conditional Capital 2019/I had not been implemented as at the 30 September 2020 reporting date.

### **Stock options**

An AGM resolution dated 7 March 2019 authorized the Management Board, with Supervisory Board approval, to issue as part of a stock option plan until 12 March 2027 up to 1,682,578 stock options with subscription rights to shares of BRAIN AG with a term of up to eight years, with the condition that each stock option grant the right to subscribe for one share, and according to further provisions. As far as issuing shares to members of the Management Board of BRAIN AG is concerned, this authorization is valid for the Supervisory Board alone. The AGM conditionally increased the share capital by € 1,682,578 to hedge and service the stock options (Conditional Capital 2019/I).

### **Capital reserves**

The capital reserves contain the share premium from the issuance of shares, net of transaction costs after taxes, as well as the expenses from granting stock options. For more information about share-based compensation, please refer to the remarks in Section "Share-based payment and other long-term employee benefits". Capital reserves as per German commercial law are published in the separate financial statements for BRAIN AG prepared according to German Commercial Code (HGB) accounting policies.

**Other reserves**

Currency translation differences are recognized in other reserves.

**Retained earnings**

Retained earnings in the 2019/20 financial year reduced mainly to reflect profit or loss attributable to shareholders of BRAIN AG.

The following table shows the non-controlling interests during the 2019/20 financial year:

| € thousand                     | Interest in net assets not held by BRAIN AG | Increase/decrease in interest in net assets not held by BRAIN AG | Attributable share of total comprehensive income | Carrying amount of interest at end of financial year |
|--------------------------------|---|--|--|--|
| Biocatalysts Ltd. <sup>9</sup> | 34.45%                                      | 0  | 510  | 5,408  |
| BRAIN UK Ltd.                  | 27.69%                                      | 0  | -9   | -49  |
| <b>Total</b>                   |   | <b>0</b>   | <b>502</b>                                       | <b>5,358</b>   |

The previous year's non-controlling interests are shown in the following table:

| € thousand   | Interest in net assets not held by BRAIN AG | Increase/decrease in interest in net assets not held by BRAIN AG | Attributable share of total comprehensive income | Carrying amount of interest at end of financial year |
|--|---|--|--|--|
| Monteil Cosmetics International GmbH <sup>10</sup> | 31.67%<br>(0%)                              | 15   | -73  | 0  |
| Biocatalysts Ltd. <sup>11</sup>                    | 34.45%                                      | 0  | 42   | 4,898  |
| BRAIN UK Ltd.                                      | 27.69%                                      | 0  | -11  | -41  |
| <b>Total</b>                                       |   | <b>15</b>  | <b>-42</b>                                       | <b>4,857</b>   |

The changes in the non-controlling interests are as follows:

**Biocatalysts Ltd.<sup>12</sup>**

| € thousand  | 30.09.2020 | 30.09.2019 |
|---|------------|------------|
| Value at start of financial year  | 4,898      | 4,856      |
| Attributable share of profit or loss for the period                     | 674        | 65         |
| Attributable share of other comprehensive income (currency differences) | -164       | -23        |
| Value at end of financial year  | 5,408      | 4,898      |

**BRAIN UK Ltd.**

| € thousand  | 30.09.2020 | 30.09.2019 |
|---|------------|------------|
| Value at start of financial year                    | -41        | -30        |
| Attributable share of profit or loss for the period | -8         | -11        |
| Value at end of financial year                      | -49        | -41        |

<sup>9</sup> Including the subsidiary Biocatalysts Inc. and taking into consideration the amortization of disclosed hidden reserves.

<sup>10</sup> The company was deconsolidated as at 30 June 2019 due to the divestiture of the interest held by BRAIN.

<sup>11</sup> Including the subsidiary Biocatalysts Inc. and taking into consideration the amortization of disclosed hidden reserves.

<sup>12</sup> Including the subsidiary Biocatalysts Inc. and taking into consideration the amortization of disclosed hidden reserves.

The following section presents summarized financial information for subsidiaries with non-controlling interests of significance to the Group.

| Summarized balance sheet data<br>€ thousand                                     | BRAIN UK Ltd./Biocatalysts Ltd. <sup>13</sup> |               |
|---|---|---------------|
|   | 30.09.2020                                    | 30.09.2019    |
| Non-current assets  | 20,431  | 20,446        |
| <i>of which proportionate goodwill from the acquisition by BRAIN</i>            | 3,785   | 3,876         |
| <i>of which hidden reserves less deferred tax from the acquisition by BRAIN</i> | 5,600   | 6,379         |
| Current assets  | 4,856   | 4,717         |
| Total equity and liabilities  | 3,099   | 2,923         |
| Current liabilities   | 2,657   | 4,139         |
| <b>Net assets</b>   | <b>19,531</b>                                 | <b>18,101</b> |

| Summarized statement of comprehensive income<br>€ thousand  | BRAIN UK Ltd./Biocatalysts Ltd. <sup>14</sup> |         |
|---|---|---------|
|   | 2019/20                                       | 2018/19 |
| Revenue   | 15,323  | 13,668  |
| Result before taxes   | 1,389   | -5      |
| Result after taxes  | 1,929   | 152     |
| <i>of which the result from the amortization of hidden reserves less deferred tax from the acquisition by BRAIN</i> | -653  | -649    |
| Total comprehensive income or loss  | 1,359   | 80      |
| Result attributable to non-controlling interests  | 502   | 31      |
| Dividends paid to non-controlling interests   | 0   | 0       |

| Summarized statement of cash flows<br>€ thousand | BRAIN UK Ltd./Biocatalysts Ltd. <sup>15</sup> |         |
|--|---|---------|
|  | 2019/20                                       | 2018/19 |
| Gross cash flow                                  | 2,844   | 1,711   |
| Cash flow from operating activities              | 1,928   | 1,717   |
| Cash flow from investing activities              | -1,554  | -5,906  |
| Cash flow from financing activities              | -31   | 1,388   |

Apart from legal restrictions, BRAIN AG is not subject to any restrictions limiting its access to the subsidiaries' assets, to utilize such assets or to settle the subsidiaries' liabilities.

<sup>13</sup> Including the Biocatalysts Inc. subsidiary. The financial data are presented on an aggregated basis as BRAIN UK Ltd. does not conduct any business activities of its own in addition to its function as an intermediate holding company.

<sup>14</sup> Including the Biocatalysts Inc. subsidiary. The financial data are presented on an aggregated basis as BRAIN UK Ltd. does not conduct any business activities of its own in addition to its function as an intermediate holding company.

<sup>15</sup> Including the Biocatalysts Inc. subsidiary. The financial data are presented on an aggregated basis as BRAIN UK Ltd. does not conduct any business activities of its own in addition to its function as an intermediate holding company.



## 21 Financial liabilities

The financial liabilities consist of the following:

| € thousand  | 30.09.2020    | 30.09.2019    |
|---|---------------|---------------|
| Loans   | 5,474         | 5,988         |
| Liabilities from put option rights for the potential acquisition of non-controlling interests | 12,052        | 12,996        |
| Non-controlling shareholders' exercised put option rights                                     | 838           | 1,658         |
| Contributions by silent partners  | 4,500         | 4,500         |
| Lease liabilities   | 7,614         | 1,351         |
| Derivatives   | 112           | 494           |
| Other   | 9             | 14            |
| <b>Total</b>  | <b>30,598</b> | <b>27,001</b> |

As at the 30 September 2020 reporting date, contributions by silent partners include a € 1,500 thousand (previous year: € 1,500 thousand) contribution by Hessen Kapital I, Wiesbaden, and a € 3,000 thousand (previous year: € 3,000 thousand) contribution by Hessen Kapital II GmbH. Of the contribution by Hessen Kapital I GmbH, 20% is repayable on 30 June 2022, a further 20% on 30 June 2023 and 60% on 30 June 2024. Of the contribution by Hessen Kapital II GmbH, 20% is repayable on 31 March 2026, a further 20% on 31 March 2027 and 60% on 31 March 2028.

The company pays fixed remuneration equivalent to nominal 7.0% p.a. (previous year: 7.00%) on the contribution of Hessen Kapital I GmbH and a profit participation equivalent to the ratio between the nominal level of the silent partnership and the nominal level of the equity of BRAIN AG, albeit to a maximum of 2.5% of the contribution and not more than 50% of the profit for the year.

The company pays fixed remuneration equivalent to nominal 6.0% p.a. (previous year: 6.0%) on the contribution of Hessen Kapital II GmbH and a profit participation equivalent to the ratio between the nominal level of the silent partnership and the nominal level of the equity of BRAIN AG, albeit to a maximum of 1.5% of the contribution and not more than 50% of the profit for the year.

BRAIN AG is entitled to call the silent partner contributions rendered by Hessen Kapital I GmbH and Hessen Kapital II GmbH before the agreed dates. However, due to the negative consequences this would have for the company (prepayment penalties), effectively this option has no economic value for the company. The silent partnerships do not participate in any losses. No obligation exists to provide additional funding.

Land charges exist with compulsory enforcement clauses on land owned by BRAIN AG with a notional value of € 2.5 million (previous year: € 2.5 million). All land charges serve to secure bank borrowings, which amounted to € 1,875 thousand at the end of the reporting period (previous year: € 2,375 thousand). The land charges rank behind an unassigned land charge in favor of the owner amounting to € 0.5 million (previous year: € 0.5 million).

At the Biocatalysts Ltd. subsidiary, € 1,982 thousand of financial liabilities are secured by € 2,765 thousand of land charges on operating property.

In the case of the L.A. Schmitt GmbH subsidiary, the financial liabilities (€0 thousand as of 30 September 2020, €35 thousand as of 30 September 2019) are secured by land charges on its business property amounting to €400 thousand (previous year: €400 thousand). As the existing land charges are not matched by any corresponding financial liabilities, the land charge could be cancelled at any time, although for cost reasons this has not occurred yet.

Other than standard retention of title from individual contracts, no other liabilities are secured by liens or similar rights. The carrying amount of the collateral furnished at the end of the reporting period stood at €6,269 thousand (€6,269 thousand as at 30 September 2019).

The nominal interest rate on the fixed interest loans lies between 1.15% (previous year: 1.15%) and 6.10% (previous year: 6.10%) p.a. The Group has no significant variable interest liabilities.

The following table shows the nominal amounts due at the financial liabilities' terms:

| 30.09.2020<br>€ thousand  | Remaining term<br>up to 1 year | Remaining term<br>1–5 years | Remaining term<br>more than 5 years |
|---|--------------------------------|-----------------------------|-------------------------------------|
| Contributions by silent partners  | 0                              | 1,500                       | 3,000                               |
| Liabilities from put option rights for the acquisition of non-controlling interests           | 0                              | 12,799                      | 0                                   |
| Leasing   | 1,081                          | 3,435                       | 3,098                               |
| Liabilities from exercised put option rights for the acquisition of non-controlling interests | 839                            | 6                           | 0                                   |
| Financial derivatives   | 112                            | 0                           | 0                                   |
| Loans   | 1,251                          | 2,773                       | 1,450                               |
| Other   | 0                              | 9                           | 0                                   |
|   | <b>3,282</b>                   | <b>20,521</b>               | <b>7,549</b>                        |

| 30.09.2019<br>€ thousand  | Remaining term<br>up to 1 year | Remaining term<br>1–5 years | Remaining term<br>more than 5 years |
|---|--------------------------------|-----------------------------|-------------------------------------|
| Contributions by silent partners  | 0                              | 1,500                       | 3,000                               |
| Liabilities from put option rights for the acquisition of non-controlling interests | 307                            | 0                           | 13,267                              |
| Finance leasing   | 742                            | 610                         | 0                                   |
| Non-controlling interests' compensation entitlements                                | 850                            | 839                         | 0                                   |
| Financial derivatives   | 494                            | 0                           | 0                                   |
| Loans   | 1,220                          | 3,309                       | 1,459                               |
| Other   | 6                              | 8                           | 0                                   |
|   | <b>3,618</b>                   | <b>6,265</b>                | <b>17,726</b>                       |

The contractually agreed due dates for principal and interest payments and for profit-related payments are shown in the following overview:

| 30.09.2020 € thousand                   | 20/21 | 21/22 | 22/23 | 23/24  | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 | 29/30 ff. |
|---|-------|-------|-------|--------|-------|-------|-------|-------|-------|-----------|
| Principal repayments                    | 3,282 | 2,200 | 2,121 | 15,169 | 1,032 | 1,524 | 2,403 | 2,447 | 658   | 517       |
| Interest payments                       | 497   | 445   | 389   | 328    | 262   | 230   | 172   | 75    | 13    | 9         |
| Profit-related payments                 | 83    | 82    | 73    | 65     | 45    | 41    | 32    | 14    | 0     | 0         |
| Total excluding profit-related payments | 3,779 | 2,645 | 2,510 | 15,496 | 1,294 | 1,754 | 2,575 | 2,522 | 671   | 525       |
| Total including profit-related payments | 3,862 | 2,727 | 2,583 | 15,562 | 1,339 | 1,795 | 2,607 | 2,536 | 671   | 525       |

| 30.09.2019 € thousand                   | 19/20 | 20/21 | 21/22 | 22/23 | 23/24  | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 ff. |
|---|-------|-------|-------|-------|--------|-------|-------|-------|-------|-----------|
| Principal repayments                    | 3,618 | 2,551 | 1,220 | 1,068 | 14,694 | 132   | 736   | 1,791 | 1,800 | 0         |
| Interest payments                       | 423   | 426   | 359   | 315   | 272    | 218   | 197   | 149   | 54    | 0         |
| Profit-related payments                 | 83    | 83    | 82    | 73    | 65     | 45    | 41    | 32    | 14    | 0         |
| Total excluding profit-related payments | 4,042 | 2,977 | 1,578 | 1,383 | 14,965 | 351   | 933   | 1,940 | 1,854 | 0         |
| Total including profit-related payments | 4,124 | 3,059 | 1,660 | 1,456 | 15,031 | 396   | 973   | 1,971 | 1,868 | 0         |

The following table shows the change in financial liabilities analyzed by cash and non-cash changes:

| € thousand                                       | Loans        | Liabilities for the potential acquisition of non-controlling interests | Liabilities for the acquisition of non-controlling shareholders | Contributions by silent partners | Derivatives | Lease liabilities | Other     | Total         |
|--|--------------|--|---|----------------------------------|-------------|-------------------|-----------|---------------|
| <b>Balance at 30.09.2019</b>                     | <b>5,988</b> | <b>12,996</b>  | <b>1,658</b>  | <b>4,500</b>                     | <b>494</b>  | <b>1,351</b>      | <b>14</b> | <b>27,001</b> |
| Cash/outflow from financing activities           | -514         | -200   | -843  | 0                                | 0           | -780              | -5        | <b>-2,342</b> |
| Subsequent measurement                           | 0            | -459   | 23  | 0                                | -382        | 0                 | 0         | <b>-818</b>   |
| Change in the scope of consolidation             | 0            | 0  | 0   | 0                                | 0           | 0                 | 0         | <b>0</b>      |
| Currency translation                             | 0            | -285   | 0   | 0                                | 0           | 83                | 0         | <b>-202</b>   |
| Additions from first-time application of IFRS 16 | 0            | 0  | 0   | 0                                | 0           | 3,002             | 0         | <b>3,002</b>  |
| Additions to leases                              | 0            | 0  | 0   | 0                                | 0           | 3,957             | 0         | <b>3,957</b>  |
| <b>Balance at 30.09.2020</b>                     | <b>5,474</b> | <b>12,052</b>  | <b>838</b>  | <b>4,500</b>                     | <b>112</b>  | <b>7,613</b>      | <b>9</b>  | <b>30,598</b> |

| € thousand                             | Loans        | Liabilities for the acquisition of non-controlling interests | Non-controlling interests' compensation entitlements | Contributions by silent partners | Derivatives | Finance lease liabilities | Other     | Total         |
|--|--------------|--|--|----------------------------------|-------------|---------------------------|-----------|---------------|
| <b>Balance at 30.09.2018</b>           | <b>6,474</b> | <b>11,784</b>  | <b>2,411</b>   | <b>4,500</b>                     | <b>0</b>    | <b>649</b>                | <b>8</b>  | <b>25,826</b> |
| Cash/outflow from financing activities | -375         | -160   | -840   | 0                                | 0           | 687                       | 6         | <b>-682</b>   |
| Subsequent measurement                 | 0            | 1,391  | 87   | 0                                | 494         | 0                         | 0         | <b>1,972</b>  |
| Change in the scope of consolidation   | -111         | 0  | 0  | 0                                | 0           | 0                         | 0         | <b>-111</b>   |
| Currency translation                   | 0            | -19  | 0  | 0                                | 0           | 0                         | 0         | <b>-19</b>    |
| Additions to finance leases            | 0            | 0  | 0  | 0                                | 0           | 0                         | 0         | <b>0</b>      |
| <b>Other changes/offsetting</b>        | <b>0</b>     | <b>0</b>   | <b>0</b>   | <b>0</b>                         | <b>0</b>    | <b>15</b>                 | <b>0</b>  | <b>15</b>     |
| <b>Balance at 30.09.2019</b>           | <b>5,988</b> | <b>12,996</b>  | <b>1,658</b>   | <b>4,500</b>                     | <b>494</b>  | <b>1,351</b>              | <b>14</b> | <b>27,001</b> |

## 22 Other liabilities

Current other liabilities mainly consist of the share of liabilities arising from put option rights exercised in connection with the employee share scheme at AnalytiCon Discovery GmbH (€ 712 thousand; previous year: € 716 thousand).

Current other liabilities consist of the following:

| € thousand  | 2019/20      | 2018/19      |
|---|--------------|--------------|
| Wage and salary liabilities   | 1,801        | 819          |
| Current share of liabilities from put option rights exercised in connection with the employee share scheme at AnalytiCon Discovery GmbH | 712          | 716          |
| Accrued vacation pay  | 483          | 429          |
| Wage and church tax, social security  | 333          | 304          |
| Supervisory Board compensation  | 220          | 279          |
| Special payments to subsidiaries' managements and employees   | 84           | 121          |
| VAT   | 98           | 30           |
| Miscellaneous other liabilities   | 534          | 221          |
| <b>Total current other liabilities</b>  | <b>4,266</b> | <b>2,919</b> |

Miscellaneous other liabilities include customer credits of € 274 thousand.

## 23 Deferred income

Deferred income consists of current deferred income of € 861 thousand (compared with € 2,588 thousand in the previous year) and non-current deferred income of € 1,369 thousand (compared with € 1,466 thousand in the previous year).

Deferred income of € 958 thousand arises from transactions with SolasCure Ltd (previous year: € 1,372 thousand). Deferred income partly includes prepayments received from customers for service obligations not yet performed as at the balance sheet date. These are shown separately in the section "(25) Prepayments received". A contribution of € 1,632 thousand is attributable to benefit obligations that have not yet been fulfilled (previous year: € 3,137 thousand). It is expected that a contribution of € 801 thousand of this amount can be recognized in revenue within one year. Financing components in the case of deferred income are always separated from the actual performance if the potential financing component is classified as material. Deferred income of € 2,588 thousand was fully recognized in revenue in the 2019/20 financial year.

## 24 Provisions

This item relates mainly to estimated expenses for the preparation auditing of the financial statements and consulting expenses. Utilization is anticipated mainly within the following financial year.

The following table provides an overview of related changes:

| € thousand  | 30.09.2019 | Utilization | Release   | Addition   | Currency differences | 30.09.2020 |
|---|------------|-------------|-----------|------------|----------------------|------------|
| Archiving costs   | 24         | 0           | 0         | 1          | 0                    | 25         |
| Costs for financial statements, auditing and consulting | 294        | -223        | -1        | 225        | 0                    | 295        |
| Decommissioning and dismantling                         | 63         | 0           | 0         | 2          | 0                    | 64         |
| Other   | 0          | 0           | 0         | 3          | 0                    | 3          |
| <b>Total</b>  | <b>381</b> | <b>-223</b> | <b>-1</b> | <b>230</b> | <b>0</b>             | <b>387</b> |

## 25 Prepayments received

Prepayments received are primarily research and development services and future supplies and have a maturity of up to one year. The total amount of € 70 thousand is attributable to current benefit obligations not yet rendered.

## 26 Trade payables

Trade payables have a term of up to one year.

## VI. Financial instruments/risks from financial instruments

The following overview presents recognized financial instruments based on their IFRS 9 measurement categories. To improve the presentation of the financial instruments relevant to the company in terms of their comparable measurement uncertainties and risks, cash and cash equivalents are presented separately in the following.

The following abbreviations are used for the measurement categories:

| Abbreviation | IFRS 9 measurement categories                                     |   |
|--------------|---|---|
| AC           | Amortized cost  | Available-for-sale financial assets and liabilities   |
| FVTPL        | Fair value through profit and loss                                | Financial assets and liabilities measured at fair value through profit or loss                          |
| FVTOCI       | Fair value through other comprehensive income (FVTOCI) for debt   | Fair value (market value) changes recognized directly in other comprehensive income (with recycling)    |
| FVTOCI       | Fair value through other comprehensive income (FVTOCI) for equity | Fair value (market value) changes recognized directly in other comprehensive income (without recycling) |

Financial assets and liabilities are as follows on a summarized basis:

| Category                             | Category | Carrying amount            |                    | Fair value      |                                      |                            |
|--------------------------------------|----------|----------------------------|--------------------|-----------------|--------------------------------------|----------------------------|
|                                      |          | 30.09.2020<br>(30.09.2019) | Amortized cost     | Cost<br>IFRS 16 | Fair value through<br>profit or loss | 30.09.2020<br>(30.09.2019) |
| € thousand                           | IFRS 9   |                            |                    |                 |                                      |                            |
| <b>Assets</b>                        |          |                            |                    |                 |                                      |                            |
| Trade receivables                    | AC       | 6,166<br>(6,388)           | 6,166<br>(6,388)   |                 |                                      |                            |
| Other current and non-current assets | AC       | 216<br>(666)               | 216<br>(666)       |                 |                                      |                            |
| Other financial assets               | AC       | 332<br>(213)               | 332<br>(213)       |                 |                                      |                            |
| Cash and cash equivalents            | AC       | 18,943<br>(15,160)         | 18,943<br>(15,160) |                 |                                      |                            |
| Total                                |          | 25,657<br>(22,427)         | 25,657<br>(22,427) |                 |                                      |                            |

| Category              | Category | Carrying amount            |                    | Fair value       |                                      |                            |
|-----------------------|----------|----------------------------|--------------------|------------------|--------------------------------------|----------------------------|
|                       |          | 30.09.2020<br>(30.09.2019) | Amortized cost     | Cost<br>IFRS 16  | Fair value through<br>profit or loss | 30.09.2020<br>(30.09.2019) |
| € thousand            | IFRS 9   |                            |                    |                  |                                      |                            |
| <b>Liabilities</b>    |          |                            |                    |                  |                                      |                            |
| Trade payables        | AC       | 3,171<br>(4,428)           | 3,171<br>(4,428)   |                  |                                      |                            |
| Financial liabilities | AC       | 29,648<br>(24,849)         | 22,034<br>(23,534) | 7,614<br>(1,351) |                                      | 29,648<br>(24,849)         |
| Financial liabilities | FVTPL    | 112<br>(494)               |                    |                  | 112<br>(494)                         | 112<br>(494)               |
| Other liabilities     | AC       | 581<br>(107)               | 581<br>(107)       |                  |                                      |                            |
| Total                 |          | 33,512<br>(29,878)         | 25,786<br>(28,069) | 7,614<br>(1,351) | 112<br>(494)                         | 29,760<br>(25,343)         |

No financial instruments exist that are to be classified in the FVOCI category.

Cash and cash equivalents, other current assets, trade receivables, and trade payables mainly have short terms remaining. As a consequence, their carrying amounts at the end of the reporting period approximate their fair values. Non-current financial assets consist of deposits and loans extended whose rates of interest mainly correspond to current market interest-rate levels.

Liabilities to banks and other lenders, as well as to silent partners, reported in current and non-current financial liabilities, are measured at amortized cost. The fair values of financial liabilities are determined by discounting, applying current discount rates that match the maturity and risk of the liabilities. The fair values mainly correspond to the carrying amounts due to regular refinancing measures at market interest rates. The terms are presented in detail in section "(21) Financial liabilities".

The carrying amounts of the financial instruments measured at fair value are classified as follows in accordance with the IFRS fair value hierarchy: listed prices in an active market (Level 1), valuation techniques based on observable inputs (Level 2), and valuation techniques based on unobservable inputs (Level 3).

No reclassifications between the different hierarchy levels were implemented.

The carrying amount of Level 2 financial liabilities (FVTPL) at the end of the reporting period amounted to € 112 thousand (previous year: € 494 thousand). These are forward exchange transactions with various terms.

The contractual undiscounted cash outflows of financial liabilities within the scope of IFRS 7 are shown in the following table:

| 30.09.2020 € thousand  | 20/21        | 21/22        | 22/23        | 23/24         | 24/25        | 25/26        | 26/27        | 27/28      | 28/29      | 29/30 ff.  |
|--|--------------|--------------|--------------|---------------|--------------|--------------|--------------|------------|------------|------------|
| Silent partnerships (without profit-sharing)                                       | 285          | 580          | 559          | 1,127         | 180          | 762          | 726          | 0          | 0          | 0          |
| Liabilities to lenders   | 1,344        | 917          | 908          | 773           | 393          | 317          | 1,183        | 0          | 0          | 0          |
| Lease liabilities  | 1,199        | 1,136        | 1,040        | 797           | 722          | 675          | 666          | 668        | 671        | 525        |
| Liabilities from acquiring interests in fully consolidated companies <sup>16</sup> | 0            | 0            | 0            | 12,799        | 0            | 0            | 0            | 0          | 0          | 0          |
| Forward exchange transactions  | 112          | 0            | 0            | 0             | 0            | 0            | 0            | 0          | 0          | 0          |
| Other liabilities  | 581          | 0            | 0            | 0             | 0            | 0            | 0            | 0          | 0          | 0          |
| Trade payables   | 3,171        | 0            | 0            | 0             | 0            | 0            | 0            | 0          | 0          | 0          |
| <b>Total</b>   | <b>6,692</b> | <b>2,633</b> | <b>2,507</b> | <b>15,496</b> | <b>1,295</b> | <b>1,754</b> | <b>2,575</b> | <b>668</b> | <b>671</b> | <b>525</b> |

| 30.09.2019 € thousand  | 19/20        | 20/21        | 21/22        | 22/23        | 23/24         | 24/25      | 25/26      | 26/27        | 27/28        | 28/29 ff. |
|--|--------------|--------------|--------------|--------------|---------------|------------|------------|--------------|--------------|-----------|
| Silent partnerships (without profit-sharing)                         | 285          | 285          | 580          | 559          | 1,127         | 180        | 762        | 726          | 1,854        | 0         |
| Liabilities to lenders   | 1,330        | 1,598        | 781          | 679          | 548           | 171        | 171        | 1,214        | 0            | 0         |
| Finance lease liabilities  | 742          | 243          | 201          | 142          | 24            | 0          | 0          | 0            | 0            | 0         |
| Liabilities from acquiring interests in fully consolidated companies | 0            | 0            | 0            | 0            | 13,267        | 0          | 0          | 0            | 0            | 0         |
| Forward exchange transactions  | 494          | 0            | 0            | 0            | 0             | 0          | 0          | 0            | 0            | 0         |
| Other liabilities  | 107          | 0            | 0            | 0            | 0             | 0          | 0          | 0            | 0            | 0         |
| Trade payables   | 4,428        | 0            | 0            | 0            | 0             | 0          | 0          | 0            | 0            | 0         |
| <b>Total</b>   | <b>7,386</b> | <b>2,126</b> | <b>1,561</b> | <b>1,380</b> | <b>14,966</b> | <b>351</b> | <b>933</b> | <b>1,940</b> | <b>1,854</b> | <b>0</b>  |

<sup>16</sup> The exercise of the put option as of the next possible date would lead to a cash outflow of € 7.8 million in the 2020/21 financial year.



The following table shows the net gains or losses on financial instruments by measurement category:

| € thousand<br>2019/20<br>(2018/19)   | From interest and<br>dividends | From subsequent fair<br>value measurement/<br>impairment | From currency<br>translation | From disposals             | Net gains/losses              |
|--|--------------------------------|--|------------------------------|----------------------------|-------------------------------|
| Loans and<br>receivables   | 30<br>(6)                      | -500<br>(-259)   | 0<br>(0)                     | -5<br>(-2)                 | -475<br>(-255)                |
| Financial liabilities<br>measured at<br>(amortized) cost                     | -272<br>(-163)                 | 356<br>(-1,825)  | 0<br>(0)                     | 805<br>(435)               | 889<br>(-1,553)               |
| Leasing  | -99<br>(-17)                   | 0<br>(0)   | 0<br>(0)                     | 0<br>(0)                   | -99<br>(-17)                  |
| Financial liabilities<br>measured at fair<br>value through profit<br>or loss | 0<br>(0)                       | 384<br>(494)   | 0<br>(0)                     | 0<br>(0)                   | 384<br>(494)                  |
| <b>Total</b>   | <b>-341</b><br><b>(-174)</b>   | <b>240</b><br><b>(-1,590)</b>                            | <b>0</b><br><b>(0)</b>       | <b>800</b><br><b>(433)</b> | <b>699</b><br><b>(-1,331)</b> |

Interest income and expenses relating to financial instruments are reported under "finance income" and "finance costs" in the consolidated statement of comprehensive income. The total interest expense relating to financial liabilities that are not measured at fair value through profit or loss amounted to € 191 thousand (previous year: € 180 thousand).

### Risk management/risks from financial instruments

The Group's business activities expose it to various financial risks: credit risk, currency risk, interest rate risk, market risk and liquidity risk.

The Management Board has implemented a risk management system to identify and avoid risks. This system is based inter alia on rigorous supervision of business transactions, comprehensive exchange of information with the employees responsible, and regular – mostly quarterly – analyses of key performance indicators for the business.

The risk management system was implemented to be able to identify adverse developments at an early stage and launch countermeasures as quickly as possible.

With regard to the financial instruments the Group deploys, the objective of the risk management function at BRAIN is to minimize the risk exposure arising from financial instruments. The company does not enter into derivative financial instrument transactions without a corresponding underlying basis transaction. In both the reporting period and the prior-year period, liquid funds were mainly invested with financial institutions in Germany and the UK that are members of a deposit protection fund.

The financial instruments that are recognized on the balance sheet can as a matter of principle generate the following risks for the Group:

#### **Credit risk**

Credit risk describes the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk consists of both counterparty credit risk and the risk of a deterioration in credit quality, along with cluster risk.

The maximum exposure to counterparty credit risk is equal to the carrying amounts of the financial instruments at the end of the reporting period. The counterparty credit risk relevant to the Group's operating activities is represented by the risk that business partners will fail to discharge their payment obligations. Risk concentration is not identifiable in the customer receivables area of the BioScience segment insofar as the claims exist in relation to a group of customers exhibiting above-average creditworthiness. Receivables in the BioIndustrial area exist in relation to many different contractual partners. The credit quality of the contracting parties is assessed to mitigate the counterparty credit risk exposure of customer receivables. The factors assessed include financial position, past experience and other factors. The corresponding financial transactions are mostly entered into only with counterparties with excellent credit ratings. Liquid funds are invested mainly in accounts with financial institutions on Germany and the UK that are members of a deposit protection fund.

#### **Currency risk**

In addition, BRAIN is exposed to foreign currency risks. Income of € 171 thousand from currency differences (previous year: € 108 thousand) is offset by € 232 thousand of expenses from currency differences (previous year: € 115 thousand), so the resultant effects in both the 2019/20 and 2018/19 financial years largely offset each other, with only a small net expense remaining. In the past financial year, BRAIN entered into minimal exchange transactions to hedge the operating business in the UK in the local currency due to the currency risks arising from Brexit. These were not categorized as a hedging instrument on the basis of IFRS 9. Foreign currency positions are generally of minor importance within the BRAIN Group. Apart from the risks set out in the section entitled "Valuation risks connected with foreign currency put option agreements", an IFRS 7 sensitivity analysis is not relevant for the financial statements due to the related subordinate importance.

#### **Interest rate risk**

Interest rate risk describes the risk of fluctuations in the value of a financial instrument because of changes in market interest rates. The largest portion of the loan has a fixed-interest period matching its maturity. The Management Board consequently believes that it is not exposed to material direct interest rate risk.

The risk exposures of the loans that match their maturities are limited to the risk that BRAIN cannot benefit from any potentially lower lending rates that may be obtained during the terms of the deposits and loans.

Negative rates of interest cannot be excluded. Significant effects on the company's financial position or performance are not anticipated. Risk for significant cash positions is countered through investing them in short-term deposits.

The Group benefited to only a limited extent from lower market borrowing rates due to the high proportion of fixed interest arrangements for its financial liabilities (> 95%; previous year: > 95%).

Further interest rate risks are detailed in the section "Valuation risks connected with foreign currency put option agreements".

### Capital management/liquidity risk

The capital management function of BRAIN AG pursues the objective of financing the company's planned growth and of securing corresponding resources for short-term financing requirements. The company consequently sets a minimum 50% target equity ratio. This was exceeded due to the IPO and supported by the capital increase in September 2017. The equity ratio amounted to 36% as at 30 September 2020 (previous year: 31%), and consequently below the target figure. The capital under management includes all current and non-current liability items as well as equity components. Financial terminology as presented in the financial statements is also utilized for debt and equity management purposes.

BRAIN AG and its subsidiaries are not subject to any capital adequacy requirements above and beyond those in the German Stock Corporation Act (AktG) and the German Limited Liability Company Act (GmbHG).

### Valuation risks connected with foreign currency put option agreements

Due to a put option agreement with non-controlling interests in a UK subsidiary that was acquired in the 2017/18 financial year, various valuation risks arise which are presented below. Significant inputs for inclusion in the Group include the relevant EBITDA included in the calculation, the relevant discounting rate, the relevant translation exchange rate for the translation into euros, as well as the imputed exercise date.

The actual obligation depends on the relevant EBITDA on the exercise date. Given 10% higher relevant EBITDA on the imputed exercise date of the put option rights, a €1,210 thousand higher liability would arise as at 30 September 2020. Given 10% lower relevant EBITDA on the imputed exercise date of the put option rights, a €1,210 thousand lower liability would arise as at 30 September 2020. Accordingly, the change was reported in profit or loss in the statement of comprehensive income.

Furthermore, the respective interest rate exerts a significant influence on the fair value recognized on the balance sheet. Given a one percentage point lower relevant interest rate on the imputed exercise date of the put option rights, a €299 thousand higher liability would arise as at 30 September 2020. Given a one percentage point higher relevant interest rate on the imputed exercise date of the put option rights, a €289 thousand lower liability would arise as at 30 September 2020. Accordingly, the change was reported in profit or loss in the statement of comprehensive income.

Furthermore, the respective exchange rate exerts a significant influence on the fair value recognized on the consolidated balance sheet. Given a 5% stronger (weaker) pound sterling in relation to the euro, the liability would be €602 thousand higher (lower). Accordingly, the change was carried directly to equity under other comprehensive income.

The exercise date forms a further significant influencing factor. Due to the expected EBITDA growth and rising EBITDA multiples, the measurement of the liability is based on the exercise of the option rights in the last possible period (1 January to 31 March 2023), and the liability is reported under non-current financial liabilities. If, for example, the option holders were to exercise their options as of the next possible period, the liability would be €5,005 thousand lower, which would already entail a cash outflow in the 2020/21 financial year.

A detailed listing of opportunities and risks is also presented in the Group management report of BRAIN AG.

## VII. Other information

### Auditor's fees

The fees paid to or accrued for the auditors of the BRAIN Group engaged for the financial year in question consist of the following items:

| € thousand                             | 2019/20    | 2018/19    |
|--|------------|------------|
| Audit services                         | 240        | 151        |
| of which relating to the previous year | 46         | 0          |
| Other services                         | 28         | 0          |
|  | <b>268</b> | <b>151</b> |

### Related party disclosures

The Management Board and Supervisory Board of BRAIN AG consist of the key management of the BRAIN Group.

The company's Management Board consisted of the following members in the financial year under review:

**Dr. Jürgen Eck**, Bensheim, CEO (until 31 December 2019)  
Diploma Biologist

**Adriaan Moelker**, Bad Homburg, CEO (from 1 February 2020)  
Master of Business Administration (MBA)

**Manfred Bender**, Heuchelheim, CFO (until 30 September 2020)  
Diploma in Business Administration

**Ludger Roedder**, Alsbach-Hähnlein, CBO (until 6 July 2020)  
Master of Business Administration (MBA)

The Management Board members are entitled to represent the company either jointly or individually with a company officer. If only one Management Board Member has been appointed, this Management Board member is entitled to represent the company alone.

For the 2019/20 financial year, the Management Board was granted total compensation of €1,335 thousand, as calculated based on the German Commercial Code (HGB). The corresponding figure for the previous year stood at €1,041 thousand.

Management Board compensation, in accordance with IAS 24, in the year under review amounted to:

| € thousand                                     | 2019/20      | 2018/19      |
|--|--------------|--------------|
| Fixed compensation <sup>17</sup>               | 822          | 718          |
| Post-employment benefits <sup>18</sup>         | 170          | 178          |
| Performance-related remuneration <sup>19</sup> | 233          | 118          |
| Termination benefits                           | 777          | 98           |
| Share-based compensation                       | 27           | 124          |
|  | <b>2,029</b> | <b>1,236</b> |

Post-employment benefits of € 495 thousand relate to Mr. Ludger Roedder, € 202 thousand to Dr. Jürgen Eck and € 80 thousand to Mr. Manfred Bender.

The total remuneration of former members of the Management Board (including those who left during the financial year under review) amounted to € 777 thousand in the financial year under review (previous year: € 98 thousand), and relates to the post-employment benefits paid to Dr. Jürgen Eck, Mr. Ludger Roedder and Mr. Manfred Bender. In the previous year, this related to Mr. Frank Goebel.

Pension provisions of € 2,802 thousand (previous year: € 1,019 thousand) have been created for former Management Board members.

The Management Board members are members of the following supervisory boards or comparable supervisory bodies:

**Adriaan Moelker**, Bad Homburg, CEO (from 1 February 2020)

BRAIN UK II Ltd., Cardiff, UK (Director)  
 BRAIN UK Ltd., Cardiff, UK (Director)  
 BRAIN US LLC, Rockville, MD, USA (Director)  
 Biocatalysts Ltd., Cardiff, UK (Director)

**Manfred Bender**, Heuchelheim, CFO (until 30 September 2020)

Schunk GmbH, Giessen (Supervisory Board Chairman)  
 Volksbank Heuchelheim eG, Heuchelheim (Supervisory Board member)

The Management Board directly holds 10,000 shares as at the reporting date.

<sup>17</sup> Including contribution to pension plan in the amount of € 84 thousand.

<sup>18</sup> The figure includes expenses from defined contribution plans and service costs. (See also section (5) Personnel expenses).

<sup>19</sup> Payments due short-term.

The company's Supervisory Board included the following members in the financial year under review:

**Dr. Georg Kellinghusen**, Munich (Chair)  
Independent consultant

**Dr. Martin B. Jager**, Enkenbach-Alsenborn (Deputy Chair until 31 January 2020)  
Managing Partner InnoVest Nutrition GmbH, Kaiserslautern

**Dr. Anna C. Eichhorn**, Frankfurt am Main (Deputy Chair from 1 February 2020)  
CEO, humatrix AG, Pfungstadt

**Dr. Rainer Marquart**, Bensheim (until 27 February 2020)  
Consultant

**Prof. Dr. Bernhard Hauer**, Fussgönheim  
University Professor

**Dr. Michael Majerus**, Ottobrunn  
Management Board member (CFO) SGL Carbon SE, Wiesbaden

The **Audit Committee** of the company's Supervisory Board included the following members in the financial year under review:

**Dr. Michael Majerus**, Ottobrunn (Chair)  
Management Board member (CFO) SGL Carbon SE, Wiesbaden

**Dr. Georg Kellinghusen**, Munich  
Independent consultant

**Dr. Rainer Marquart**, Bensheim (until 31 January 2020)  
Consultant

The **Personnel Committee** of the company's Supervisory Board included the following members in the financial year under review:

**Dr. Georg Kellinghusen**, Munich (Chair)  
Independent consultant

**Dr. Martin B. Jager**, Enkenbach-Alsenborn (until 31 January 2020)  
Managing Partner InnoVest Nutrition GmbH, Kaiserslautern

**Dr. Michael Majerus**, Ottobrunn  
Management Board member (CFO) SGL Carbon SE, Wiesbaden

The **Nomination Committee** of the company's Supervisory Board included the following members in the financial year under review:

**Dr. Georg Kellinghusen**, Munich (Chair)  
Independent consultant

**Dr. Anna C. Eichhorn**, Frankfurt am Main  
CEO, humatrix AG, Pfungstadt

The **M&A Committee** of the company's Supervisory Board included the following members in the financial year under review:

**Dr. Martin B. Jager**, Enkenbach-Alsenborn (Chair until 31 January 2020)  
Managing Partner InnoVest Nutrition GmbH, Kaiserslautern

**Dr. Georg Kellinghusen**, Munich  
Independent consultant

**Dr. Rainer Marquart**, Bensheim (until 27 February 2020)  
Consultant

The **Innovation Committee** of the company's Supervisory Board included the following members in the financial year under review:

**Dr. Anna C. Eichhorn**, Frankfurt am Main (Chair)  
CEO, humatrix AG, Pfungstadt

**Dr. Martin B. Jager**, Enkenbach-Alsenborn (until 31 January 2020)  
Managing Partner InnoVest Nutrition GmbH, Kaiserslautern

**Prof. Dr. Bernhard Hauer**, Fussgönheim  
University Professor

The Supervisory Board members are members of the following **supervisory boards or comparable supervisory bodies**:

**Dr. Georg Kellinghusen**, Munich (Chair)  
Advyce GmbH, Munich (Advisory Board member)  
Neue Wirtschaftsbriefe GmbH & Co. KG, Herne (Advisory Board member)  
Deutsche Bank AG, Frankfurt am Main (Regional Advisory Board member, Bavaria)  
Simplifa GmbH, Berlin (Advisory Board member)

**Dr. Martin B. Jager**, Enkenbach-Alsenborn (Deputy Chair until 31 January 2020)  
EIT Food iVZW, Belgium (Supervisory Board member)

**Dr. Anna C. Eichhorn**, Frankfurt am Main (Deputy Chair from 1 February 2020)  
Frankfurt Biotechnology Innovation Center, Frankfurt am Main  
(Supervisory Board member)

**Dr. Michael Majerus**, Ottobrunn  
SGL CARBON LLC, Charlotte, USA (Supervisory Board member)  
Non-executive director on the Management Board of Deutsches Aktieninstitut e.V.,  
Frankfurt am Main

**Prof. Dr. Bernhard Hauer**, Fussgönheim  
None

**Dr. Rainer Marquart**, Bensheim (until 27 February 2020)  
FLYTXT B.V., Nieuwegein, Netherlands (member of the Board of Directors)  
Leverton GmbH, Berlin (Advisory Board Chairman)  
Onefootball GmbH, Berlin (Advisory Board member)  
The Ark Pte. Ltd., Singapore (member of the Board of Directors)

The compensation of the Supervisory Board in the year under review was as follows:

| € thousand                               | 2019/20    | 2018/19    |
|--|------------|------------|
| Fixed compensation*                      | 154        | 181        |
| of which allowance for special functions | 60         | 68         |
| Attendance fees*                         | 66         | 98         |
| <b>Total compensation</b>                | <b>220</b> | <b>279</b> |

\* Payments due short-term

The Supervisory Board indirectly holds 10,000 shares in the company as at the reporting date. Further information is presented in the compensation report in the Group management report.

### Other relationships with related parties

In the 2019/20 and 2018/19 financial years, the following supplies or purchases of goods and services occurred between the members of the governing bodies (Management and Supervisory board members) and their related parties and associated companies of the BRAIN Group and entities with significant influence over BRAIN AG.

Enzymicals AG is an associated company pursuant to IAS 28.2 and is therefore categorized as a related party pursuant to IAS 24.9. As of the reporting date, BRAIN AG was owed € 104 thousand (previous year: € 104 thousand) of loan and interest receivables by Enzymicals AG. The interest income for this 6.0% loan amounted to € 6 thousand in the 2019/20 financial year (previous year: € 6 thousand). Regarding the term, please refer to the following section "Contingencies and other financial obligations".

SolasCure Ltd. is an associated company pursuant to IAS 28.2 and is therefore categorized as a related party pursuant to IAS 24.9. As of the reporting date, BRAIN AG was owed



€ 125 thousand (previous year: € 89 thousand) of loan and interest receivables by SolasCure Ltd. The interest income for this 7.00% loan amounted to € 8 thousand in the 2019/20 financial year (previous year: € 1 thousand). The loan matures on 30 June 2021.

A license agreement was concluded with SolasCure Ltd. in the 2017/18 financial year as part of the investment, for which BRAIN AG was paid with shares in the company equivalent to an amount of € 3,919 thousand. These have been deferred and will be recognized as revenue until September 2024 in the amount of the other shareholders' interests, as BRAIN AG will be closely involved in the approval process until then and will render further services. Unrealized results of intra-group transactions are eliminated in the consolidated financial statements as part of consolidation, resulting in the recognition in the current financial statements of an amount of € 958 thousand (previous year: € 1,372 thousand). In connection with the license, a service agreement was also concluded with an anticipated total volume of around € 5.6 million. In the 2019/20 financial year, revenue was generated with the company in the context of the transaction described above in the amount of € 2,129 thousand (previous year: € 2,060 thousand).

No receivables were due from directors of BRAIN AG or individuals related to these directors as at 30 September 2020. As at the 30 September 2020 reporting date, the following outstanding balances existed in relation to the aforementioned parties, which are reported under other liabilities, and aforementioned compensation elements:

- Supervisory Board compensation: € 220 thousand (previous year: € 279 thousand);
- Management Board compensation: € 313 thousand (previous year: € 227 thousand);
- Deferrals for outstanding vacation (Management Board): € 20 thousand (previous year: € 94 thousand).

No other obligations exist in relation to the key management personnel of BRAIN AG.

### **Contingencies and other financial commitments**

Contingent liabilities of € 0 thousand exist as at the balance sheet date (previous year: € 281 thousand) for potential costs in connection with the acquisition of the Biocatalysts Group. As at 30 September 2020, € 222 thousand was recognized on the balance sheet due to the higher assumed probability of an outflow of resources for this item. The corresponding expense was adjusted in EBITDA.

As in the previous year, as of the 30 September 2020 balance sheet date no obligations exist from contracts entered into for third-party work in the area of research and development contracts.

As was the case at the end of the previous financial year, as at 30 September 2020 no obligations exist arising from investment projects that have been commenced.

Contingent purchase price obligations exist for intangible assets that depend on the achievement of specific future revenue using these intangible assets up to a maximum amount of € 160 thousand (previous year: € 160 thousand).

As part of a lending facility with a term until 31 December 2020 that is not fully utilized, Enzymicals AG was granted the right to draw down a further € 40 thousand of short-term loans from BRAIN AG.

The Management Board is not aware of other facts or circumstances that could lead to material additional financial commitments.

**Employees**

The number of employees reports the following changes:

|                                 | 2019/20 | 2018/19 |
|---------------------------------|---------|---------|
| <b>Total employees, of whom</b> | 279     | 281     |
| Salaried employees              | 253     | 256     |
| Industrial employees            | 25      | 25      |

The BRAIN Group also employs grant recipients (6, previous year: 4), temporary help staff (14, previous year: 12), trainees (7, previous year: 7).

**Statement of conformity to the German Corporate Governance Code**

The statement of conformity to the German Corporate Governance Code as required by Section 161 of the German Stock Corporation Act (AktG) was issued by the Management and Supervisory boards and published on the company’s website.

**Events after the reporting date**

**Change in the Management Board - Lukas Linnig takes over from Manfred Bender**

Lukas Linnig assumed the role of Chief Financial Officer at BRAIN AG on 1 October 2020. In May, the company had previously announced that CFO Manfred Bender would resign from his position as a member of the Management Board with effect from 30 September 2020, and leave the company on amicable terms. At the same time, the company announced that Mr. Linnig had been appointed to the Management Board with effect from 1 October 2020 and had been appointed as the future Chief Financial Officer (CFO).

**New members of the Supervisory Board**

On 14 October 2020, Prof. Dr.-Ing. Wiltrud Treffenfeldt and Mr. Stephen Catling were appointed by the Darmstadt District Court as new members of the Supervisory Board with immediate effect until the next Annual General Meeting on 10 March 2021. With their many years of experience, they complete the Supervisory Board to its full number of six members.

Zwingenberg, 22 December 2020



**Adriaan Moelker**  
CEO



**Lukas Linnig**  
CFO

# Independent auditor's report

To B.R.A.I.N. Biotechnology Research and Information Network AG

## Report on the audit of the consolidated financial statements and of the Group management report

### Opinions

We have audited the consolidated financial statements of B.R.A.I.N. Biotechnology Research and Information Network AG, Zwingenberg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 30 September 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 October 2019 to 30 September 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have examined the Group management report of B.R.A.I.N. Biotechnology Research and Information Network AG for the fiscal year from 1 October 2019 to 30 September 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance, which is published on the website stated in the Group management report and is part of the Group management report.

- In our opinion, on the basis of the knowledge obtained in the audit,
- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 30 September 2020, and of its financial performance for the fiscal year from 1 October 2019 to 30 September 2020, and

- the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the Group management report does not cover the content of the corporate governance statement referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

### Basis for the opinions

We conducted our audit of the consolidated financial statements and examination of the Group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the Group management report" section of our auditor's report. We are independent of the Group businesses in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the Group management report.

## **Key audit matters in the audit of the consolidated financial statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 October 2019 to 30 September 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters. Below, we describe what we consider to be the key audit matters:

### **Impairment testing of goodwill**

#### **Reasons why the matter was determined to be a key audit matter**

The goodwill impairment test performed annually by the Management Board is based on a valuation model that uses the discounted cash flow method. Against the background of the complexity and judgment exercised during this valuation, the goodwill impairment test was a key audit matter. The goodwill impairment test is based on assumptions that are derived from corporate planning and influenced by the expected future market and economic conditions. The recoverable amount of goodwill is mainly dependent on the estimated future net cash flows in the business plan as well as the assumed discount and growth rate. Defining these parameters is the responsibility of the executive directors and is subject to judgment. There is a risk that amendments to these judgments entail significant changes to the impairment testing of goodwill.

#### **Auditor's response**

We assessed the suitability of the valuation process for identifying the potential need to recognize impairment losses. During our audit, we also evaluated the valuation model used to determine the recoverable amounts with the help of our valuation experts, especially in terms of its methodical applicability and clerical accuracy.

We tested the executive directors' forecasts regarding the estimated future net cash flows by comparing the plan adopted by the Management Board and approved by the Supervisory Board for consistency with information from the management accounts as well as the market expectations. In addition, the

plans were compared for consistency with other internal expectations, such as the forecast information provided in the management report. We also compared the plans drawn up in the prior periods with the actual results in order to analyze the accuracy of the forecasts.

We examined the calculation of the inputs used, especially the discount rate applied, for substantive and arithmetical accuracy by comparing them with external market expectations.

We also performed sensitivity analyses in order to assess the potential impact of changes in the inputs used on the recoverable amount.

In addition, we assessed the disclosures in the notes to the financial statements.

Our procedures did not lead to any reservations relating to the valuation of goodwill.

### **Reference to related disclosures**

With regard to impairment testing of goodwill, we refer to the disclosures in the section entitled "Impairment tests" of the notes to the consolidated financial statements.

### **Other information**

The Supervisory Board is responsible for the Report from the Supervisory Board in chapter 1 of the Annual Report 2019/20. In all other respects, the executive directors are responsible for the other information.

The other information comprises of the corporate governance statement mentioned above. In addition, the other information also comprises of the following components intended for the annual report, of which we received a version prior to issuing this auditor's report:

- the report from the Supervisory Board in chapter 1 of the Annual Report 2019/20;
- the corporate governance report in chapter 3 of the Annual Report 2019/20;
- the responsibility statement of the executive directors in chapter 4 of the Annual Report 2019/20.

Our opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

### **Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the Group management report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions made in the Group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the Group management report.

### **Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

### **Further information pursuant to Art. 10 of the EU Audit Regulation**

We were elected as Group auditor by the Annual General Meeting on 5 March 2020 and were engaged by the Supervisory Board on 9 September 2020 to audit the consolidated financial statements as at 30 September 2020. We have been the Group auditor of B.R.A.I.N. Biotechnology Research and Information Network AG without interruption since fiscal year 2016/17.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

### **German Public Auditor responsible for the engagement**

The German public auditor responsible for the engagement is Helge-Thomas Grathwol.

Mannheim, 22 December 2020

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

**Grathwol**  
Wirtschaftsprüfer

**Hällmeyer**  
Wirtschaftsprüfer





06

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# Further Information

# Glossary

## A

### **Aurase®**

Enzymatic agent as part of an innovative gel-based medical device for the biotherapeutic treatment of chronic wounds

## B

### **Bioactive natural compounds**

Used to develop products for the food, beverages, skin care, cosmetics and chemical industries

### **Bio-based products**

Bio-based products are goods manufactured from renewable raw materials

### **Biocatalysts Ltd., Biocatalysts Inc**

BRAIN subsidiaries based in UK (headquarters in Cardiff, Wales) and subsidiary in US (Illinois); global distributor network e.g. Korea, Australia, New Zealand. Key player in the specialty enzyme business

### **Biocatalysts**

Enzymes that act as catalysts to accelerate (bio)chemical reactions

### **Bioeconomy**

Concept for a biobased economy; mega-trend that encompasses the transformation from industries based on fossil raw materials to a more sustainable form of economic activity that mainly utilizes biological resources and processes

### **BioIndustrial**

One of BRAIN's two business segments: development and marketing of

the company's own products along the value chain

### **Biologization of industry**

Application of biological processes in an industrial setting with the aim of creating a more sustainable economy

### **Biorefinery**

Technology for the sustainable processing of biomass into marketable products (e.g. food, feed, materials, chemicals) and energy (fuels, electricity, heat). Integrated biorefineries combine various such technologies with the aim of greater flexibility and cost reduction. Integrated biorefineries facilitate the use of byproducts and waste, and enable the production of high-quality products (e.g. fine chemicals) combined with low-quality products (e.g. bioenergy).

### **BioScience**

One of BRAIN's two business segments: cooperation business established with globally operating industrial partners

### **Biotechnology**

Application-oriented sub-sector of biology; includes insights and methods from microbiology, genetics, biochemistry, technical chemistry and process engineering; utilizes biological processes e.g. for industrial applications

### **BioXtractor**

BRAIN demonstration plant for next-generation metal extraction in the areas of green and urban mining based on microorganisms

### **BRAIN BioArchive**

In-house collection consisting of

around 53,000 comprehensively characterized microorganisms (including "chassis microorganism" strains for the development of production organisms) and the BRAIN libraries: an enzyme library, a metagenome library and a substance library with numerous isolated natural compounds (see also BRAIN libraries)

### **BRAIN Libraries**

BRAIN Group collections of enzymes, DNA sequences or natural substances. *Enzyme library*: up to 500 isolated and pre-characterized enzymes and DNA coding for enzymes introduced into expression vectors. *Metagenome library*: screenable DNA library with metagenomes from different habitats; collection serves to identify previously uncharacterized enzymes and metabolic pathways. *Substance library*: collection of natural substances with sub-libraries of specific, well-characterized groups of substances

### **Bulk enzymes markets**

Volume-driven mass markets for enzymes sold in large volumes. This stands in contrast with the high-margin business with specialty enzymes

### **Business-to-Business (B2B)**

Form of the market in which the supply and rendering of services is realized by companies to companies (= business relations between at least two companies)

## C

### **Circular Bioeconomy**

Term derived from the fusion of the two concepts of the "bio-economy" and the "circular economy"; circular

bio-economy focuses on the sustainable, resource-efficient utilization of biomass in integrated production chains (e.g. biorefineries) while simultaneously utilizing residual and waste materials; the sequential use (cascade use) of biomass resources for different purposes ensures value optimization.

#### **Clone**

Genetically identical organisms, created by natural division or reproduction, or artificially created

#### **Circular economy**

Concept for the complete recovery of raw materials utilized, beyond a commodity's life cycle, through to new production processes; component of the bioeconomy

#### **Compliance**

Alignment of companies with laws and directives, as well as voluntary codes

## D

#### **Development pipeline**

Total number of BRAIN Group development projects for New Business/Product Development

#### **Development projects**

R&D projects of the BRAIN Group for New Business/Product Development

#### **DNA**

Deoxyribonucleic acid: biomolecule that carries genetic information (genes)

#### **DOLCE**

Strategic partnership initiated by

BRAIN for the development of natural sweeteners and sweet taste enhancers

## E

#### **Enzymes**

Proteins that accelerate biochemical reactions in their function as biocatalysts; play an important role in the development of biobased products; BRAIN identifies and develops optimized enzymes and biocatalysts for complex process and application requirements

## F

#### **FRESCO**

BRAIN development program for freshness and product stability utilizing natural bioactive substances; suitable for the food and feed industry, for medical products, paints, cleaning agents and other household products

## G

#### **Giga-bp DNA**

Length of a DNA sequence, indicated by the number of base pairs (1 Giga bp = 1,000,000,000 base pairs); common metagenomics measure

#### **GRAS status**

Generally Regarded as Safe status: declaration of safety for the use of substances (e.g. microorganisms) to manufacture foodstuffs; GRAS organisms can be utilized without restriction in biotechnological production

#### **Green mining**

Sustainable mining, e.g. ore treatment to extract gold, silver or copper using microorganisms rather than chemicals

## H

#### **Habitat**

An organism's natural environment

High-performance microorganisms  
Biotechnologically optimized microorganisms that serve as microbial "cell factories"

#### **HTC technology**

Human Tongue Cell Technology; in vitro test system based on human tongue cells, established and patented by BRAIN to test substances for their sweetening power

## I

#### **Industrial biotechnology**

Also known as white biotechnology; drives innovation for a paradigm shift away from petroleum-based towards biological processes and bioeconomy products

## M

#### **Metagenome**

All the genomic information present in all the microorganisms of a specific community

#### **Metagenomics**

Genomic analysis of a community of organisms by gene sequencing; genetic material is extracted, sequenced and analyzed directly from

# Glossary

environmental samples, which saves the previous cultivation of microorganisms

## **Microorganism**

Microscopically small unicellular or multicellular organisms, e.g. bacteria, algae, fungi or viruses

## N

### **New Business Development (NBD)**

Systematic further development of existing and development of new business opportunities including e.g. R&D and marketing activities

### **New Product Development (NPD)**

R&D activities that aim to develop product candidates for the BRAIN Group's own market offerings

## P

### **Peptides**

Linear, sometimes ring-shaped chain of molecules consisting of two or more amino acids; long polypeptide chains are called proteins.

### **Product sales**

Sales of products in the form of merchandise, technologies or biotechnological system solutions; can be achieved via the BRAIN Group's direct B2B business or through joint product developments with industrial partners and corresponding licensing agreements; scalable-product business

option offered by the BRAIN Group (see also R&D cooperation partnerships)

## R

### **R&D**

Research and development

## S

### **SALT-E**

BRAIN development program for healthier foods through salt reduction

### **SDG-UN**

United Nations Sustainable Development Goals

### **Specialty chemicals**

Specific chemical products with a broad range of activities on which a large number of other industrial sectors depend

### **Specialty enzymes market**

Markets for high-margin specialty enzymes business

### **Stage-gate process**

Standardized process model for developing product innovations with the aim of assuring process quality

### **Synthetic Biology**

Area of biology in which organisms are modified to develop new, useful abilities

## T

### **Tailor-Made-Solutions (TMS)**

Dedicated contract R&D programs for the development of tailor-made solutions for industry

## U

### **Urban Mining**

Sustainable extraction of valuable substances from secondary raw materials and waste flows in order to retain them in value chains in the long term

## W

### **White Biotechnology**

Includes the application of modern biotechnology in industrial production processes. Chemical starting materials are converted by enzymes and cells into products suitable for further processing. Also known as industrial biotechnology

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# Financial calendar

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**Publication of the quarterly report as at 31 December 2020 (3M)**

**26.02.2021**

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**Annual General Meeting, Zwingenberg**

**10.03.2021**

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**Publication of the interim report as at 31 March 2021 (6M)**

**28.05.2021**

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**Publication of the quarterly report as at 30 June 2021 (9M)**

**30.08.2021**

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## **Disclaimer**

This report might contain certain forward-looking statements that are based on current assumptions and forecasts made by the management of the BRAIN Group and other currently available information. Various known and unknown risks and uncertainties as well as other factors can cause the company's actual results, financial position, development or performance to diverge significantly from the estimates provided here. BRAIN AG does not intend and assumes no obligation of any kind to update such forward-looking statements and adapt them to future events or developments. The report can include information that does not form part of accounting regulations. Such information is to be regarded as a supplement to, but not a substitute for, information prepared according to IFRS. Due to rounding, it is possible that some figures in this and other documents do not add up precisely to the stated sum, and that stated percentages do not reflect the absolute figures to which they relate. This document is a translation of a document prepared originally in German. Where differences occur, preference shall be given to the original German version.

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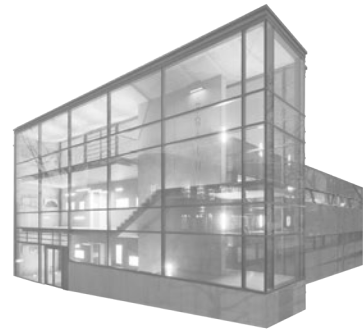
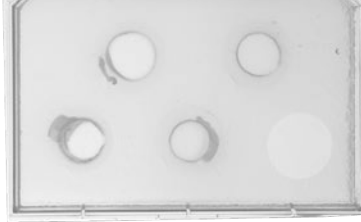
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